



ACA
COMPLIANCE GROUP
BEACON VERIFICATION SERVICES

JANUARY 2009 UPDATE

ATTEST BVS

It may be hard for some to believe, but this month’s newsletter marks the last edition of Attest BVS for 2008. As we all look forward to 2009, we at Beacon want to take time to focus on the Advertising Guidelines of the GIPS. We have found that this is one area of the GIPS that is not as well understood, and we hope that our article reminds firms of their obligations when advertising. This month’s edition also features another installment of our on-going ‘Countdown to 2010’ in which we briefly discuss one of the upcoming changes to the GIPS.

From all of us at Beacon, may you and your families have a joyous holiday season, and a prosperous New Year!

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GIPS Advertising Guidelines

As 2008 comes to a close and our clients prepare for the good times ahead (it can’t last forever, right?) we thought it would be appropriate to provide guidance pertaining to advertising guidelines and the GIPS.

Undoubtedly many firms will be presenting their year-end performance in hopes of attracting new business. Below, we will discuss what constitutes an advertisement and when and how the GIPS Advertising Guidelines must be followed. In an especially turbulent market, the spirit of the GIPS, full disclosure and fair representation, are particularly important.

In an increasing age of financial globalization, the GIPS become increasingly important as investors

around the world are able to chase yield via an array of securities and markets that were perhaps not as well known to them previously. The ethical standards prescribed by the GIPS make it easier for potential investors to confidently compare performance results of a firm in Frankfurt to those of a firm in New York. Furthermore, a variety of performance metrics make it possible for the prospect to gain an understanding of how firms have achieved their track record and whether or not the firm’s strategies fit the investor’s investment (CONTINUED)



goals. This globalization will inevitably result in varying presentations coming from varying parts of the world, hence the need for a consistent set of rules. Before discussing these rules it is essential to understand a few things. The GIPS Advertising Guidelines define an advertisement as including:

any materials that are distributed to or designed for use in newspapers, magazines, firm brochures, letters, media, or any other written or electronic material addressed to more than one prospective client. Any written material (other than one-on-one presentations and individual client reporting) distributed to maintain existing clients or solicit new clients for an advisor.

If said advertisement claims compliance with the Advertising Guidelines and the advertising firm satisfies all of the requirements of the Standards and claims compliance on a firm-wide basis, then the GIPS Advertising Guidelines are mandatory. If an advertisement does not include a claim of compliance, the guidelines are voluntary. It is encouraged that *all* firms abide by the guidelines as they serve as industry best practice and a good ethical roadmap.



When there are conflicts between the GIPS Advertising Guidelines and applicable law or regulation, firms must adhere to the law or regulation and disclose the conflicts.

Given that the GIPS Advertising Guidelines provide a good ethical foundation for firms to present performance, it should be noted that there may be additional disclosures necessary depending on the local regulatory requirements. It is recommended, of course, that firms seek legal and/or regulatory counsel in this regard. When there are conflicts between the GIPS Advertising Guidelines and applicable law or regulation, firms must adhere to the law or regulation and disclose the conflicts. An example of this is the presentation of gross vs. net of fee returns. Local rules governing these may be more stringent than the GIPS Advertising Guidelines and firms must be sure to follow them.

There are effectively two levels of advertisements. The first includes a claim of compliance with the Advertising Guidelines and other important information pertaining to the firm. The second contains all of this information but also presents performance. This second level of advertisements must include a range of additional disclosures for the advertisement to be in fact compliant with the Advertising Guidelines.

All advertisements that include a claim of compliance with the GIPS Advertising Guidelines must include the following:

1. A description of the firm.
2. How an interested party can obtain a presentation that complies with the requirements of GIPS standards and/or a list and description of all firm composites.
3. The GIPS Advertising Guidelines compliance statement:
XYZ Asset Management claims compliance with the Global Investment Performance Standards (GIPS®).

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Beacon Verification encourages all firms to remember these crucial elements of advertising within the GIPS guidelines as they seek out new business.

All advertisements that include a claim of compliance with the GIPS Advertising Guidelines and that present performance results must also include the following information (the relevant information must be taken/derived from a presentation that adheres to the requirements of the GIPS):

4. A description of the strategy of the composite being advertised.
5. Period-to-date composite performance results in addition to either:
 - a. 1-, 3-, and 5-year cumulative annualized composite returns with the end-of period date clearly identified (or annualized period since composite inception if inception is greater than 1 and less than 5 years). Periods of less than 1 year are not permitted to be annualized. The annualized returns must be calculated through the same period of time as presented in the corresponding compliant presentation; or
 - b. 5 years of annual composite returns with the end-of-period date clearly identified (or since composite inception if inception is less than 5 years). The annual returns must be calculated through the same period of time as presented in the corresponding compliant presentation.
6. Whether performance is shown gross and/or net of investment management fees.
7. The benchmark total return for the same periods for which the composite return is presented and a description of that benchmark. (The appropriate composite benchmark return is the same benchmark total return as presented in the corresponding GIPS-compliant presentation.) If no benchmark is presented, the advertisement must disclose why no benchmark is presented.
8. The currency used to express returns.
9. The description of the use and extent of leverage and derivatives if leverage or derivatives are used as an active part of the investment strategy (i.e., not merely for efficient portfolio management) of the composite. Where leverage/derivatives do not have a material effect on returns, no disclosure is required.
10. When presenting noncompliant performance information for periods prior to 1 January 2000 in an advertisement, firms must disclose the period(s) and which specific information is not compliant as well as provide the reason(s) the information is not in compliance with the GIPS.

In addition to the required disclosures (both regulatory and/or GIPS), firms are encouraged to present Additional and Supplemental Information that would help a potential investor to interpret the historical performance results contained in the advertisement. This information should be presented with equal or less prominence than the required disclosures. We would be more than happy to discuss or provide guidance pertaining to Additional and Supplemental Information to any who are interested. We encourage all firms to remember these crucial elements of advertising within the GIPS guidelines as they seek out new business. ◀



Countdown to 2010 – Inclusion of Non-Fee Paying Accounts

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.

Although the new edition of the Standards will come out in 2010 and will not be effective until 2011, a draft version will be rolled out in early 2009 for commentary. The intent of this trial period is to get feedback on potential rules from industry practitioners. Among the various proposed changes, the Standards plan to remove the exemption for excluding non-fee paying accounts from composites. As a result, all firms that currently exclude discretionary, non-fee paying accounts will be required to include these in their respective composites. The requirement to disclose the percentage of non-fee paying accounts in a composite will still be applicable and firms will have to disclose this on the presentations. As this will be proposed guidance in 2009 and subject to change, all affected parties are encouraged to voice their opinion. Additional proposed changes can be found on the website gipsstandards.org. ◀

Beacon Verification Services Conferences 2009

Beacon Verification Services will be exhibiting at the following conference in 2009.

We look forward to seeing you there!

European GIPS Standards Conference

Shaping the Future of Performance Measurement

11–12 February 2009

Sheraton Park Lane Hotel

London, United Kingdom

<http://www.cfainstitute.org/memresources/conferences/090211/index.html>

Upcoming Webcast

Introduction to GIPS® Compliance and Verification, January 27, 2009

Facilitator – Justin Guthrie, CFA, CPA - Director, Senior Verification Manager

Facilitator – Christie Dillard, Verification Associate

Has your firm recently considered claiming compliance with the GIPS® in order to grow your business? Or have you recently been charged with the task of helping your firm become GIPS® compliant and verified and are not sure where to begin? In this webcast, we will walk through the basics of claiming compliance with the GIPS® and give you an idea of what is really involved with the verification process. For more information, please visit our website acompliancegroup.com. ◀