



29 June 2009

GIPS Executive Committee
c/o CFA Institute Centre for Financial Market Integrity
Global Investment Performance Standards
560 Ray C. Hunt Drive
Charlottesville, VA 22903

Re: GIPS2010 Exposure Draft

Dear GIPS Executive Committee,

As South African Country Sponsor, the Association for Savings and Investment South Africa (ASISA) welcomes the opportunity to comment on the GIPS2010 Exposure Draft.

We appreciate all the hard work that has gone into preparation of this document. As a Country Sponsor Committee we have had several meetings to discuss the draft and our comments are summarized below. We hope our comments will be of value in the final stages of this review.

We look forward to publication of the final document and our continued collaboration with the GIPS EC on promotion of the Standards. Please do not hesitate to contact us should you need to clarify any of our comments.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Sunette Mulder', is written over a horizontal line.

Sunette Mulder
Chair: ASISA GIPS Standing Committee

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COMPANY REGISTRATION NO. 2008/017776/08

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PROVISION	SA VIEW	ADDITIONAL COMMENTS
0A1	AGREE	
0A2	AGREE	For clarity we believe it will be valuable to add reference to existing clients, thus make the following addition: “...held out to existing clients or PROSPECTIVE clients...”
0A3	PARTIALLY AGREE	We agree with the inclusion of “non-fee paying PORTFOLIOS”. We however feel strongly that this should still refer to “MARKET VALUE” and not “FAIR VALUE”. See comment 1 below on the Fair Value issue.
0A4	AGREE	
0A5	AGREE	
0B1	AGREE	
0A6	AGREE	
0A7	PARTIALLY AGREE, NEED CLARITY ON CERTAIN ISSUES	<p>For firms currently verified: We agree in principle, but have following questions for clarity: 1) Who can ask for a verification report? 2) Should a firm obtain permission from verifier prior to sending out the verification report?</p> <p>For firms not verified: We agree with this.</p> <p>For firms that have been verified, but not current: We do not agree with inclusion of this 3rd statement. We believe this will cause confusion in the market.</p> <p>Should this 3rd statement however be included, we believe a firm should be required to disclose the reason for verification being discontinued.</p>
<p>Do you agree with including disclosure of the firm’s verification status in the claim of compliance? <i>Yes, we agree with this.</i></p> <p>Do you agree with the classification of a current verification being within the last 24 months? <i>No, we do not believe inclusion of this adds significant value. Either a firm is verified or it is not.</i></p>		
0A8	AGREE	
0A9	AGREE	
0A10	AGREE	
0A11	AGREE	For clarity we believe guidance should be given as to what should be given or communicated to someone not deemed to be a prospective client. For example we do not believe it would be in the spirit of GIPS to just ignore such a request, but we would expect a firm to give valid reasons for decision to not deem a person/institution a prospective client.
0A12	AGREE	As Appendix B was not part of the exposure draft we would request that it is updated and a few samples are given to aid firms in complying with this.
0A13	AGREE	

PROVISION	SA VIEW	ADDITIONAL COMMENTS
0A14	AGREE	
0A15	AGREE IN PRINCIPLE	We are concerned that the requirement to comply with all issued Q&A's, Interpretations and Clarifications might be very onerous. Possibly add language to the effect that "all reasonable effort" must be made.
0A16	AGREE	
0A17	AGREE IN PRINCIPLE	We suggest the following change: "FIRMS MUST NOT <i>intentionally</i> present performance of performance related information....."
0B2	AGREE	We acknowledge that it is not the intention for all recommendations to become requirements in future and it is only in this light that we agree with the inclusion of this recommendation.
0B3	AGREE	
0B4	AGREE	
1A1	AGREE	
1A2	STRONGLY DISAGREE	Please refer to our note under 1 regarding FAIR VALUE. There needs to be consistent reporting between GIPS and Accounting.
<p>Do you agree with the change from market value to fair value? <i>No, we strongly disagree with this change.</i></p>		
1A3	AGREE	
1A4	AGREE	
1A5	AGREE	
1A6	PARTIALLY AGREE	We disagree to the reference to FAIR VALUE.
1A7	AGREE	
1B1	AGREE	We believe this recommendation needs a reference to a time period. Possibly add language at the end "...no less than annually".
1B2	AGREE	
1B3	AGREE	
1B4	AGREE	
2A1	AGREE	
2A2	AGREE	
2A3	AGREE	
2A4	AGREE	
2A5	AGREE	

PROVISION	SA VIEW	ADDITIONAL COMMENTS
2A6	AGREE	
2A7	AGREE	
2B1	AGREE	
3A1	AGREE	
<p>Do you agree with requiring the inclusion of non-fee paying discretionary portfolios in composites? <i>Yes, we agree.</i></p>		
3A2	AGREE	
3A3	AGREE	
3A4	AGREE	
3A5	AGREE	
3A6	AGREE	
3A7	AGREE	
3A8	AGREE	
3A9	DISAGREE	We believe this should stay a recommendation and not become a requirement. It might be very difficult to have a full view right at the start of negotiations with a prospective client as to the full potential investment value.
<p>Do you agree with changing 3.A.9 from a recommendation to a requirement? <i>No, we do not agree with this change.</i></p>		
3A10	AGREE	
3B1	AGREE	
<p>Should firms be allowed to remove certain disclosures after a defined period of time? If so, which disclosures would be eligible for removal and after what period of time? <i>Yes, we do agree that certain disclosures should be eligible for removal. We will address those in the "Additional comments" column.</i></p>		
4A1	AGREE	
4A2	AGREE	
4A3	AGREE	If there is a change we believe this disclosure can expire after 5yrs.
4A4	AGREE	
4A5	AGREE	
<p>Do you agree with the inclusion of short positions in provision 4.A.5? <i>Yes, we agree with this inclusion.</i></p>		
4A6	AGREE	
4A7	AGREE	

PROVISION	SA VIEW	ADDITIONAL COMMENTS
4A8	AGREE	
4A9	AGREE	
4A10	AGREE	
4A11	AGREE	Please refer to our comment below in “Glossary” section for a concern we have regarding “Carve-out” definition.
4A12	AGREE	
4A13	AGREE	
4A14	AGREE	
4A15	AGREE	
4A16	AGREE	We would like guidance from GIPS EC re model fees. We feel firms should only be allowed to subtract actual fees and not model fees.
4A17	AGREE	
4A18	AGREE	We believe this disclosure can expire 5yrs after a sub-advisor is no longer used.
4A19	AGREE	
4A20	UNSURE	We would like clarity as to what is viewed as “key characteristics” and “risks” prior to committing to this requirement. We understand “risks” to refer to qualitative rather than quantitative, but clarity would be appreciated.
<p>Do you agree with requiring the disclosure of key characteristics and risks in the composite description? <i>As a committee we would like to first see the proposed guidance statement on risk prior to deciding whether we agree or disagree on this point.</i></p>		
4A21	AGREE	
4A22	AGREE	
4A23	AGREE	The disclosure relating to a change of name of a composite can expire after 5yrs.
4A24	AGREE	
4A25	AGREE	
4A26	AGREE	
4A27	AGREE	
4A28	AGREE	
4A29	AGREE	
<p>Do you agree with the inclusion of a standard deviation disclosure? <i>Yes, we agree with this inclusion.</i></p>		
4B1	AGREE	
4B2	AGREE	
4B3	AGREE	

PROVISION	SA VIEW	ADDITIONAL COMMENTS
5A1a	AGREE	
5A1b	AGREE	
5A1c	AGREE	
5A1d	AGREE	
5A2	AGREE	
5A3	AGREE	
5A4	AGREE	
5A5	AGREE	
<p>Is it appropriate to discontinue disclosure 5.A.5 for periods after 1 January 2011? <i>No, we do not think it is appropriate to discontinue it after 1 January 2011. We believe it will be prudent to keep this disclosure in till 1 January 2016.</i></p>		
5A6	AGREE	
5A7	AGREE	
5A8	DISAGREE	We do not believe making this disclosure will add any value to the prospective client.
<p>Do you agree with the requirement to present the percentage of the composite assets composed of proprietary assets? <i>No, we do not agree with this requirement as we do not believe this will add any value to the prospective client and can prove onerous for a firm that might form part of a big conglomerate.</i></p>		
5B1	AGREE	
5B2	AGREE	
5B3	AGREE	
5B4	AGREE	
5B5	AGREE	
5B6	AGREE	
5B7	AGREE	
<p>Section 6&7: Real Estate and Private Equity</p> <p><i>As the majority of the members of the country sponsor committee are from traditional asset managers with limited exposure to pure Real Estate and Private Equity investment, we will not provide comment on each of the draft provisions. For areas that fell within the expertise and experience of members we provide their comments on some of the proposed provisions.</i></p>		
<p>Do you agree that real estate investments must be valued by an independent external appraiser every 12 months beginning 1 January 2012? <i>No, we do not agree. We feel the cost will be prohibitive and might lead to low levels of uptake within the Real Estate firms. This cost might also inevitably be passed to the investor and we do not feel this is prudent.</i></p>		

PROVISION	SA VIEW	ADDITIONAL COMMENTS
6A4	DISAGREE	Those firms with real estate exposure do not currently have the capability to calculate component returns.
6A5	DISAGREE	Those firms with real estate exposure do not currently have the capability to calculate component returns.
6A9	DISAGREE	Those firms with real estate exposure do not currently have the capability to calculate component returns.
6A10	AGREE	
6B3	AGREE	
6A15	DISAGREE	Those firms with real estate exposure do not currently have the capability to calculate component returns.
<p>Do you agree that component returns must be disclosed, and that the method described in provision 6.A.9.b will no longer be acceptable for periods beginning after 1 January 2011? <i>No, we do not agree with use of component returns.</i></p>		
6A16	AGREE	
6B4	AGREE	
6B5	AGREE	
<p>Introduction to Section 7: Private Equity: <i>In the introduction there is no majority clause similar to what is included in Section 6: Real Estate. Thus, included a paragraph to this effect: "If a PORTFOLIO includes a mix of PRIVATE EQUITY and other investments that are not PRIVATE EQUITY, then these REQUIREMENTS and RECOMMENDATIONS MUST apply if the majority of the FAIR VALUE of PORTFOLIO investments is PRIVATE EQUITY."</i></p>		
<p>Section 8: WRAP FEE/SMA <i>This section of the standards is not relevant to asset managers in South Africa and as such we are not going to comment on the suggested changes.</i></p>		
<p>Section III: VERIFICATION <i>A general comment that we would like the GIPS EC to consider is that currently the principles around verification does not include any specific reference to Section 0 (Fundamentals) and Appendix C (Advertising). We believe this should be considered for inclusion in Verification.</i></p>		
SECTION A	AGREE	
SECTION B	AGREE	
<p>Should specific verification procedures be included for GIPS provisions 0.A.16 and 0.A.17? <i>No, we feel these 2 provisions falls outside the scope of verification.</i></p>		
SECTION C	AGREE	
<p>Appendix C: GIPS Advertising Guidelines <i>As noted above, we believe there should be some reference to Advertising Guidelines within the Verification section.</i></p>		

PROVISION	SA VIEW	ADDITIONAL COMMENTS
SECTION A	AGREE	
SECTION B	SEE COMMENT	We believe the advertising guidelines are too onerous for all forms of media (as per the definition of an advertisement). If a firm mentions their GIPS compliance in an advert, then mention should be made that additional information is available on request.
Appendix D: GIPS Valuation Principles <i>We are supportive of the Valuation Principles, but only if introduced as a recommendation, not a requirement.</i>		
Do you agree with the requirements and recommendations in the GIPS Valuation Principles below? <i>We do not agree with the introduction of the valuation principles as requirements, but are supportive of the principles as recommendations. We feel it is important for GIPS to follow accounting standards. Our comments below to the points we have particular comments on.</i>		
1	DISAGREE	We would support this being a recommendation. In the South African context we envisage problems with bid/offer pricing, liquidity and structured products.
3	DISAGREE	In South Africa there are certain generally accepted market practices that are followed and not because it is part of regulation, e.g. valuation of securities at closing price rather than bid/offer prices. We would like guidance how we would need to deal with that in terms of this proposed disclosure.
6	DISAGREE	It is unclear to us what would prevail, definition (i.e. willing buyer-willing seller) or hierarchy? If the “objective, observable, unadjusted quoted market price” does not meet the willing buyer-willing seller definition, are firms required to use it? This statement is also seen as contradictory to IFRS.
7A	DISAGREE	If the intention is to follow IFRS, we believe there is a level missing in this hierarchy.
Glossary:		
Carve-out	DISAGREE	We believe this is too broad and might have unintended consequences. The way it reads at the moment sub-portfolios or “building blocks” would be deemed carve-outs. We suggest addition of following to the end of the sentence. “...distinct investment strategy <i>that is not a portfolio managed separately in its own right with its own cash allocation.</i> ”
Do you agree with the definition of prospective client? If not, how should it be defined? <i>Yes, in general we agree with the definition. We feel it is important for a firm to have the discretion not to deal with someone if they so wish.</i>		

1. **Fair Value** - As stated above the South African Country Sponsor Committee is strongly opposed to the introduction of the Fair Value concept as a requirement, but we support it being a recommendation.

There is a consolidated view that the GIPS standards should not move away from accounting standards. The practical constraint can have a huge impact on the GIPS uptake in our market. Firms feed accounting data to their performance systems and it would not be practical to run 2 systems in parallel. In the current economic climate we fear this might lead to firms abandoning the GIPS standards. However, we do acknowledge that guidance is needed regarding what alternatives should be followed in cases where market value for an instrument is no longer available and as such we do support introduction of this concept as a recommendation.

Some of the individual feedback from our members regarding “Fair Value” as follows:

Firms will not change their valuation methodologies on securities from market value to fair value on listed securities due to pressure from the GIPS standards if that is adopted in the 2010 standards. They will only adopt this new valuation methodology if it becomes industry practice in South Africa.

PRICES NOT QUOTED BY AN EXCHANGE

We were largely comfortable with the pricing processes around instruments where the price is not quoted by an exchange e.g. OTC instruments. In this regard we read clause 11(SHOULD be obtained from an independent external third party) as a RECOMMENDATION and not as a REQUIREMENT. Specialist independent pricing firms are not really available.

There are also circumstances where there are a number of prices (e.g. by various market makers) for an instrument and we need a process to choose a price.

PRICES QUOTED BY AN EXCHANGE

Most of the discussion focused on cases where prices are quoted by an exchange, and we are uncomfortable with the quoted price. Clause 7.c. of Appendix D needs to be amended to cater for these items:

1. Where the quoted price is too high and we wish to select a lower price (e.g. a corporate bond

where we feel a default is more likely than the market price would suggest).

2. Where we have good reason to believe that the quoted price is not accurate.
4. Where the exchange is down and no prices are available.
5. Where the instrument has not traded for a while and we believe the price is stale. This begs the question: What is the process to determine when a price becomes stale? Will there be GIPS guidelines or does each firm define this in its own policy?

We feel that there are cases where exchange quoted prices could overstate asset values, and we would want the flexibility to invoke clauses 7.d. or 7.e. of Appendix D, even though clause 7.c. has not been violated.

OTHER POINTS:

1. The GIPS Standards need to define what they mean by "quoted market price". Do they mean quoted by an exchange? Are prices quoted by banks or market makers deemed quoted?
2. Should a circumstance arise where a price is quoted by an exchange and we use another price, then what is the process for reverting to the listed price at a later date?