



CFA Institute  
Centre for Financial Market Integrity  
Reference: Global Investment Performance Standards  
PO Box 3668  
Charlottesville  
Virginia 22903

Our Ref:  
CA/CN/jdc

29<sup>th</sup> June 2009

Dear Sirs,

### **Exposure Draft of the 2010 Global Investment Performance Standards**

Baring Asset Management has been complying with GIPS since their inception and AIMR-PPS prior to that from 1993. Our compliant firm has been verified by KPMG Audit plc up to the period ending December 2008. Our assets under management include authorised investment funds, institutional funds and private client portfolios.

Baring Asset Management would like to address the following in relation to the exposure draft of the 2010 standards:

- Verification and claim of compliance (0.A.7);

(i) It is extremely disappointing to find that mandatory verification has been removed from the draft. There is considerable speculation in the industry to the effect that firms electing to remain unverified often follow poor working procedures and may even fail to actually comply with the standards. This inconsistency may contribute to a failure of one of the primary objectives of the standards – fair representation. Investment firms such as ourselves who invest considerable time and expense in consolidating working practice, enhancing controls, educating internal parties and obtaining independent opinion feel aggrieved that our strict adherence to the standards puts us at a disadvantage, at least financially, if not in the presentation of results themselves. We strongly urge the EC to retain the issue of mandatory verification on the agenda for future revisions.

(ii) The former notwithstanding, we are very pleased to note that a statement as to whether or not the firm has been verified is included within the compliance statement. We urge you in the strongest terms not to remove this requirement so as to further water down the importance of verification. In our opinion there is no need to have three compliance statements. Either the verification is current or not. Verification reports which are more than 24 months out of date render the claim invalid in our opinion. We understand that verification processes are complicated following corporate take over, but under such circumstances perhaps a special dispensation can be made to declare that work is ongoing following this restructure activity.

(iii) We believe that the compliance statement should be given prominence, and as such be required to be the first disclosure listed in the report, rather than buried within a body of text.

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(iv) In order to provide transparency to potential investors it is our view that non-verified firms should provide a brief statement of the reason for this (e.g. "The FIRM is not currently independently verified due to the cost being prohibitive").

(v) We also believe that it should be a requirement to disclose the name of the verifier.

- Prospective Clients (0.A.11);

The term "prospective client" is ambiguous and requires significant clarification. Additionally there should be some cross reference in this section to the more general advertising disclosure requirements. The distinction between this requirement and the advertising requirements should be clearly specified. We also question whether the 12 month window is truly relevant. 6 months is still too long in our opinion but is achievable for asset managers.

- Providing clients with compliant presentations on an annual basis (0.B.2);

We disagree with this recommendation for 3 fundamental reasons:

(i) This would lead to a significant increase in operational overhead for firms which have a diverse mandate range. Whilst we agree that a firm should provide a compliant presentation for any firm composite *upon request*, it is common practice to produce compliant presentations only for those composites being used in a marketing or sales scenario. We urge the EC to consider the resource implication this requirement entails.

(ii) By default, half of the clients within a composite will fall below the composite return (not accounting for asset weighting of course!). At present sales and client service departments across the industry are supportive of GIPS, which has contributed to their success to date. We feel it likely that sentiment could substantially change if managers are forced to highlight a negative story with their existing client base. GIPS serves to protect the *potential* investor from being misled. This requirement seems to be an unnecessary step beyond that.

(iii) Many investment mandates are so unique they lead to construction of a composite containing just one portfolio. We question the usefulness of supplying a full composite presentation to a client containing little more than numbers they have already received.

- Fair value (1.A.2);

Each country has its own regulatory framework governing the valuation of investment assets. We believe that GIPS should merely comment on the obligation of asset managers to comply with local valuation principles. We believe a more reasonable requirement would be for firms to disclose which accounting regulations have been followed in assessing the market value of held assets.

On a practical note, insistence on the inclusion of fair value pricing may force investment firms to establish multiple price sources within their fund accounting platform, greatly increasing operational overhead and the risk of reporting inconsistencies and /or errors.

- Accrual of management fees (1.B.3);

We agree that this should remain a recommendation within the standards. Fee accrual functionality is by no means universal across fund accounting systems currently in place. We find it highly unlikely that this situation will change in the foreseeable future and would be strongly opposed to any suggestion to promote this to a requirement.

- Inclusion of non-fee paying portfolios in composites (3.A.1);

We agree with the inclusion of non fee paying portfolios, but are concerned that the net-of-fee composite return could be misleading if the non-fee paying portfolios form a significant proportion of the overall composite.

In order to achieve full disclosure investment firms should be required to disclose the percentage of the composite comprising non fee paying portfolios. Alternatively and preferably, a standard fee scale could be applied to non fee paying portfolios in order to give a fairer representation of the true net-of-fee return to potential investors.

- Presentation of composite results where a minimum asset level applies (3.A.9);

This requirement is impractical to implement. It is often not known how much money a client wishes to commit to a mandate at the time of presenting composite results.

- Removal of disclosures after a period of time (4.A);

Barings believe that disclosures having no bearing on the prospective client in question should be removed. The length of the presentation disclosures can become an issue when including these in marketing materials where space is at a premium. Removal of unnecessary disclosures would likely be welcomed by most. We propose five years as an appropriate period after which such disclosures could be removed.

- Disclosure of short positions (4.A.5);

We are supportive of this disclosure. Further guidance is required though to ascertain whether the existence of such is indeed 'material'.

The term "short positions" also calls for further definition.

The statement "sufficient to identify risks" is too vague and subjective. We believe this phrase should be removed.

- Disclosing key characteristics of a strategy (4.A.20);

Barings agree that composite descriptions should be meaningful to potential investors. However it is unrealistic to expect all relevant mandate information to be included within the description, particularly those implied by the statement "including risks". To fully outline all risk characteristics of a strategy, or indeed the range of risks associated with all portfolios within a given composite, more than a brief textual statement is required. We would expect the prospective client to discuss this kind of detailed information directly with the investment manager prior to investment implementation. We therefore suggest that this requirement is modified.

- Disclosure of correction due to material error (4.A.28);

We do not feel that this is an appropriate requirement. Firms should have already documented the remedial steps to be followed in the event of a correction due to a material error (Error Correction Policy). This should, in our opinion, be sufficient. There would appear to be no value in disclosing a correction to a prospective client who has hitherto not been presented with incorrect numbers.

- Standard deviation disclosure (4.A.29):

Barings support the intention of the requirement to provide some clarity to a prospective client as to observed historic risk. This is a controversial topic, with opinion varying greatly. Our view is that the disclosure of standard deviation as of the most recent period presented is of extremely limited value.

Since the composite return is itself an average the standard deviation of the composite return in theory understates the observed volatility of individual portfolios.

The range of 3-year rolling standard deviation over an extended period (e.g. up to 10 years ago, or since inception if less than 10 years) would be a significant improvement on the requirement as currently drafted.

5.B.7. adds that the standard deviation measure should be calculated on a minimum of monthly periods. We believe all investment managers to be capable of calculating standard deviation on a monthly period basis. Less frequent periodicity (weekly and daily) will be difficult to implement for many. Should some investment management firms elect to calculate volatility based on weekly or daily periods the resultant measure would not be comparable to other composite presentations where the results are based on monthly observations. We believe direct comparability is very important and therefore urge the Executive to adjust the requirement to "monthly" rather than "minimum of monthly".

- Carve - out disclosure (5.A.5):

We believe there is still value in this disclosure. Our preference is for the continuation of this requirement.

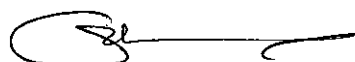
- Disclosure of proprietary assets (5.A.8):

This requirement is ambiguous. A full definition of "Proprietary" is needed. In order to assess the worthiness of this requirement it would also be helpful to know the background to the inclusion of this request. It would seem that the percentage of proprietary assets in a composite is of limited value. Perhaps the addition of the purpose of proprietary assets would be more meaningful.

Lastly, we are somewhat concerned regarding the quality of some verification services available in the marketplace. Discount service must still be of sufficient standard to assure all that compliance is indeed being achieved. The failure of verification to identify fraudulent activity has been profiled in the press as you know. We appreciate that verification will often fail to identify fraud given the limited nature of the exercise. Nonetheless we feel that the industry should be doing more to assure investors that high standards are being maintained. As already stated we strongly support the notion of mandatory verification. We also believe that verifiers themselves should be qualified and / or monitored by an independent supervisory body. Until these ideals are realised the value of the GIPS standards remains in question, and the image portrayed by self regulation is significantly tarnished.

Baring Asset Management appreciates the considerable efforts of the GIPS Executive Committee in redrafting the Global Investment Performance Standards. We eagerly anticipate the feedback from this public comment period.

Yours faithfully,



Chris Nimmick  
Head of Performance