

# GIPS – Comments on the draft version of GIPS Guidelines 2010

*BEAMA - Belgian GIPS Country Sponsorship*

## Enclosure to the Minutes of the “GIPS - Belgian Users’ Meeting” of 18 February 2009

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### Summary

The feed-back to be given to the CFA Institute will consist of 2 parts:

- answer to the questions specifically mentioned in the draft exposure
- comments on other changes

## 1. Answer to questions

### Question 1:

**Do you agree with including disclosure of the firm’s verification status in the claim of compliance?**

**Do you agree with the classification of a current verification being the last 24 months ?**

Comments:

Everyone agrees with this, as it offers fair recognition to the firms doing the effort of being verified on a regular basis.

### Question 2:

**Do you agree with the change from market value to fair value?**

Comments:

Nearly everyone agrees. Seen as positive in those specific market circumstances where market price is not always available or relevant. AXA asks to wait for its feed-back that will be given in the coming days.

**Question 3:**

**Do you agree with requiring the inclusion of non-fee paying discretionary portfolios in composites?**

Comments:

Everyone agrees. No particular comment.

**Question 4:**

**Do you agree with changing 3.A.9 ("*FIRMS MUST NOT present a COMPOSITE to a PROSPECTIVE CLIENT known to have a PORTFOLIO with assets less than the COMPOSITES'S minimum asset level.*") from a recommendation to a requirement?**

Comments:

General feedback is negative:

-Assets from a prospective client might be difficult to assess and potentially substantially vary over time. If a prospective client identifies a track record as attractive, he could decide to invest more money than initially foreseen.

-Composite reports are available on websites and it is impossible to know the asset size of the prospects consulting the reports. Certainly some prospects with assets lower than the minimum size can also consult reports.

**Question 5:**

**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?**

Comments:

Everyone agrees. Disclosures can become irrelevant over time; firms should therefore be allowed to remove them (to be discussed one by one). We think this should be after 5 years and if not relevant anymore.

**Question 6:**

**Do you agree with the inclusion of short positions in provision 4.A.5?**

Comments:

We agree. One suggests that 4.A.5 essentially disclose the POSSIBILITY OF (= the AUTHORIZED) PRESENCE, AND THE LIMITS of such instruments, short positions, etc.... in the composite considered (instead of their actual presence and use) following the definition and restrictions of the investment strategy in question.

**Question 7:**

**Do you agree with requiring the disclosure of key characteristics and risks in the composite description?**

Comments:

We agree. No additional comment.

**Question 8:**

**Do you agree with the inclusion of a standard deviation disclosure?**

Comments:

We agree.

**Question 9:**

**Is it appropriate to discontinue disclosure 5.A.5 for periods after 1 January 2011 ?**

Comments:

We have no opinion.

**Question 10:**

**Do you agree with the requirement to present the % of the composite assets composed of proprietary assets?**

Comments:

We do not agree. No matter who puts the capital in the composite management. Those assets follow the entire set of GIPS rules like the other assets and comply then in the same way. So we don't see the interest/added value of disclosing the presence of proprietary assets.

**Question 11:**

**Do you agree that real estate investments must be valued by an independent external appraiser every 12 months beginning 1 January 2012?**

Comments:

We have no opinion.

**Question 12:**

**Do you agree with the additional requirements and recommendations for closed-end real estate funds as described?**

Comment:

We have no opinion.

**Question 13:**

**Do you agree that component returns must be disclosed, and that the method described in the provision 6.A.9.b will no longer be acceptable for periods beginning after 1 January 2011?**

Comments:

We have no opinion.

**Question 14:**

**Is it appropriate and/or necessary to include provision 8.A.6, which addresses presenting performance to existing clients, in the GIPS standards?**

Comments:

We agree.

**Question 15:**

**Should firms be allowed to present a “sponsor-specific composite” as opposed to “style-specific composite”?**

Comments:

We agree. We would appreciate a definition of sponsor – specific composite in appendix.

**Question 16:**

**Should specific verification procedures be included for GIPS provisions 0.A.16 (laws and regulations for calculation and reporting of returns) and 0.A.17 (false or misleading information)?**

Comments:

No. Those procedures should not lead to increased costs and complexity in the verification process, because it would lead to a 2 speed GIPS universe between verified and non verified firms. This could also lead to technical problems for global firms, with procedures specific to all local regulations.

**Question 17:**

**Do you agree with the requirements and recommendations in the GIPS Valuation Principles?**

Comments:

We agree.

**Question 18:**

**Do you agree with the definition of prospective client?**

Comments:

We do not agree. This question is linked to question 5. We agree on the definition of a prospective client, but not on the mention of the minimum asset level.

## 2. Comments on other changes

### **0A15 & 0B3:**

Updates on standards between the official releases should follow an official consultation process.

The official GIPS authorities and the governance structures should be taken into account in the decision process, avoiding that one organism can decide alone outside an official process.

### **0A111 & 0B2:**

We think this is not possible because we cannot identify all the clients linked to the composites

### **1A3 / C:**

We do not agree on the change, because it can be better to use intermediate estimated valuation than an old official valuation. For instance, in the case of hedge fund, the official valuation process can be long and take more than 1 month. In period of market volatility, it is preferable to use unofficial estimates to better reflect the market conditions.

### **1A4:**

We think this should be changed to allow at least exceptions. For example, in case of market closing, a NAV calculation can be suspended. Or in case of hedge fund, the valuation can be often on another day than the last business day of the month

### **2A2:**

Defining large cash flow at composite level and computing it at portfolio level is difficult to organize, because it can be done by different entities. We think that alignment is necessary in all GIPS articles using the notion of large cash flow, towards the notion of large cash flow at portfolio level (and not at composite level).

### **5A1B:**

With reference to 0A16, GIPS has to comply with laws. We think 5A1B is not compliant with MIFID, because MIFID does not allow to compute & present performances on periods shorter than 1 year.

### **4B3:**

We insist that this recommendation cannot become a requirement because the benchmark definition takes into account the target return (for example for monetary rate) and it is not always possible to explain the difference with the composite strategy.