

## 2010 GLOBAL INVESTMENT PERFORMANCE STANDARDS EXPOSURE DRAFT

### NEW ZEALAND COUNTRY SPONSOR COMMENTS

#### Summary views

In the main the New Zealand Country sponsor agrees with issues where specific feedback has been sought. We also think that the 2010 proposals represent a major step forward for the GIPS standards and, in particular, view the extension to a “fair value” approach to valuation and inclusion of private equity as positive moves.

#### Specific comments

##### **O.A.7**

We agree with disclosing the firm’s verification status.

There is no need to draw a distinction between “Firms that have been verified, but are not currently verified” and “Firms that have not been verified”. They are both not verified.

##### **O.A.16 and O.A.17**

To verify O.A.16 (compliance with applicable laws) requires quite extensive knowledge. The verifier ought to be familiar with general laws and regulations relating to the calculation and reporting of returns (see B.1.b) but not necessarily be an expert to a high level. The verification test could therefore be one of “to the best of the verifier’s knowledge O.A.16 has been complied with.

Compliance with O.A.17 (not present false or misleading information) ought to be ascertained in general by the verification process (see B.1d and B.1.e).

Specific verification procedures for O.A.16 and O.A.17 are not necessary.

##### **1.A.2**

We agree with the change from market value to fair value and the hierarchical approach to determining fair value.

##### **1.A.3 (c)**

This appears to be redundant. There’s a provision for at least monthly valuations and on occasion of large cash flows. Everything seems covered. In fact, there’s no issue with more frequent valuation.

### **3.A.1**

We agree with inclusion of non-fee paying discretionary portfolios in composites.

### **4.A**

Firms should be able to remove certain disclosures if those disclosures become no longer relevant or applicable. The underlying question is: what is the minimum period we want presentations to be GIPS compliant? Therefore certain disclosures that note 'minor' departures from the 'norm' for that composite would become no longer relevant or applicable after this period – say 10 years.

Looking at the disclosures 4.A.1 – 4.B.3:

- 4.A.10 and 4.A.11 both of which have dates embedded in them and might become no longer applicable over time;
- Similarly disclosure of the changes in 4.A.21 – 4.A.23 might also become irrelevant over time;
- 4.A.28 might also become no longer applicable.

### **4.A.5**

We agree with including short positions provisions.

### **4.A.7**

We suggest also disclosing level of withholding tax deducted in the benchmark.

### **4.A.20**

We agree in principle with disclosing the key characteristics and risks of the composite strategy. However the disclosures have the potential to be considerably lengthy and / or bound up in 'legalese'. We would not want to see general statements about market, liquidity, counterparty etc risks which are of no particular use. Further clarification is need here.

### **4.A.29**

We agree with standard deviation being disclosed and agree that the three years annualized standard deviation using monthly ex-post returns is appropriate. Clarification may be required regarding how standard deviation is calculated for a composite portfolio when the components of the composite may have different standard deviations i.e. a material dispersion of returns across the composite.

### **4.B.3**

Material differences between the benchmark and composite strategies could be considerable. What level of “materiality” is expected? Think of a highly active, concentrated global equities strategy benchmarked to the MSCI ACWI. Managers might find this provision difficult to comply with and to get a verifier to sign-off on.

#### **5.A.5**

The question of discontinuing the disclosure is tied to the general discontinuing of disclosures discussed above in relation to 4.A. There is a period after which this disclosure would no longer be relevant.

#### **5.A.8**

We agree with the requirement to provide the percentage of proprietary assets in a composite.

#### **5.B.3**

This section refers to “additional relevant composite-level risk measures”. There’s a requirement to disclose the risks of a composite strategy (4.A.20) and a requirement for a dispersion measure (4.A.26). Ex-post standard deviations are required in 4.A.29 and recommended in 5.B.7. The additional risk measures are therefore likely to be at least as technical as standard deviation and perhaps more so. We query whether additional risk measures are necessary and suggest that if they are necessary firms should also include a brief glossary or explanation of the measures.

#### **5.B.7**

This recommendation is a copy of the requirement at 4.A.29.

#### **6.A.2**

We agree with independent external appraisal of real estate investments every twelve months beginning 1 January 2012. Signaling that requirement now gives firms time to prepare to comply.

#### **6.A.15**

We agree that component returns must be disclosed and that 6.A.9 b is no longer acceptable for periods beginning after 1 January 2011;

### **Valuation Principles**

We note that the “qualified, independent, external third party” could be electronic e.g. Bloomberg closing market quotes.

### **Glossary**

Words that are not technical and have widely understood unambiguous meanings e.g. “must”, “must not” “recommended”, “required” and “should” don’t need to be defined here. Their meanings are those of common usage and found in any recognised dictionary.

Internal Rate of Return.

Words along the lines of “with the PAID-IN CAPITAL” are missing from the end of the definition.

Prospective Client.

Suggest add the words “represented in that COMPOSITE” to the end of the first sentence. This addition makes it clear that the client is interested in a particular strategy related to the composite not any unspecified strategy of the firm.

Significant Cash Flow

A better descriptive term is required here. I suggest a term like “NON-IMPLEMENTABLE CASH FLOW” or “PROHIBITIVE CASH FLOW” to signal that the cash flow is not only large (covered elsewhere) but of sufficient size that it temporarily compromises the investment strategy and ordinary or standard methods of dealing with it don’t apply.

Peter McCaffrey  
New Zealand Country Sponsor Representative

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