



Date: 26 June 2009

To: GIPS 2010 Exposure Draft Working Group  
[standards@cfainstitute.org](mailto:standards@cfainstitute.org)

**INVESTMENT MANGEMENT ASSOCIATION OF SINGAPORE**  
**GIPS 2010 PUBLIC FEEDBACK & COMMENTS**

Dear Sir/Mdm,

Please find herein the submission of the consolidated comments and feedback on the GIPS 2010 Exposure Draft from the members of Investment Management Association of Singapore (IMAS), the country sponsor of GIPS in Singapore.

The following paper represents the views of several fund managers in Singapore, and is the result of a survey, forums and working group meetings amongst members. The paper has been written and presented in a question and answer style. The questions raised do not cover all of the GIPS 2010 draft but focuses on those raised in the draft in the context of the Singapore fund management industry today and thereafter the answers were consolidated. In most cases, there is agreement in the views of our members while in some cases there are different views. In the interest of submitting all relevant comments from members we have not edited these conflicting views but hoped your review would be aided by seeing all opinions.

As you may know, Singapore has an active oversight committee for Performance and Risk issues and so if you need further clarification on any point or response, please do not hesitate to contact the IMAS Secretariat at [replies@imas.org.sg](mailto:replies@imas.org.sg). Thank you.

We sincerely hope this feedback is helpful to your process and look forward to the result of your deliberations and further feedback. We also would like to reiterate our support for your efforts to continue to develop the GIPS standards to meet the evolving needs of the industry.

On behalf,  
Investment Management Association  
of Singapore (IMAS)  
Trevor Persaud,  
Head of Risk & Performance Committee



## **GIPS 2010 Public Feedback & Comments from Investment Management Association of Singapore (IMAS)**

### **1. a) Do you agree with including disclosure of the firm's verification status in the claim of compliance?**

Yes but we do not feel that there should be differentiation between a current or not current verification in the disclosure but rather just leave the dates relevant to verification. It will also be fair to those firms who are GIPS verified.

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

No – verification refers to a specific period – if you disclose which period is verified this should be sufficient as long as that data has not been restated or changed.

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

No. The concepts and detail involved in adhering to fair value is complex and in most cases governed by other standards in the market depending on the specific assets in some cases. We suggest reference is made to fair value as a preference in the absence of defined best practice in a jurisdiction but not to make the wording any stronger than this.

We commend the intentions behind the recommended changes. However, we would also like to stress that the requirements and recommendations should consider the serious implications if BID prices are used as sole element of Fair Value.

It seems the accounting concept of Fair Value is the preferred use of BID prices in valuation. This will pose the following concerns and difficulties and we would then strongly oppose use of BID prices as requirements:

**Mutual Funds Valuations:** For subscription and redemption, the market practice is that the NAVs of mutual funds are calculated using market closing prices. For GIPS performance reporting, if BID prices were to be used to derive the NAV of the same fund, this may result in two sets of NAVs. As such, costs of administering a Mutual Fund will increase. Also it will be confusing to investors and the Fund Manager as we may end up showing two sets of returns for the same fund in newsletters and the fund's publications.

**Benchmarking:** This will be a serious consideration. If the Index Vendors compile the index values using Market Closing Prices, and the Funds use BID prices to comply with GIPS, then the comparison with benchmarks will be distorted and not meaningful. It is



likely that we end up spending time in reconciling the differences arising from the source of price mismatched.

Liquidity: From our experience, the instruments' liquidity in the markets determines whether BID price is a good source. The less liquid the instruments are, the more distorted the Bid price will be. Also BID prices would not be an ideal one if the spread between BID and ASK is huge even for liquid instruments. And there might be incidents or occasions where BID prices can be unrealistic or manipulated at the close of the markets.

System Constraint: Many fund managers and other third party related data gatherers and the like will find it a constraint as current systems are set up to capture the closing or last done price. For it to be changed to Bid prices will be costly and unfeasible.

We believe Fair value is to be interpreted as part of the Composite specific valuation policy, rather than treated separately from the policy. If this is the case, we agree since Fair value is already introduced in accounting standards and accounting data often forms the source data for returns computations.

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

*(Please note differing opinions on the above subject)*

Yes. (Some of our members do agree with the above)

No. Non-fee paying accounts are by definition abnormal and so should not be included in standard marketing composites.

Non-fee paying discretionary portfolios normally do not make up a big part of a firm's AUM. Thus, non-inclusion in composite should not have a major impact.

We feel that the proposal may not have considered the implications arising from scenario where fee-paying discretionary portfolios and non-fee-paying discretionary portfolios are included in a same composite as they may share same strategy. If so, the dispersion of returns among the component accounts can be high due to fees differences.

Alternatively, separate composites can be created for fee-paying discretionary portfolios and non-fee-paying discretionary portfolios though they may share same strategy. But we foresee the issue of "cherry picking" will arise which GIPS encourages to avoid.



**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?**

No. We think it should remain a recommendation. This is near impossible to police – as long as the minimum asset level is clearly disclosed this should be sufficient.

We would like to question how this proposed requirement applies if a Firm does not institute a minimum asset level for Composite.

If as a requirement, it will be difficult to implement as we, just like any other fund managers, regularly provide composite data to consultants or update in their databases. As such, we will not be able to monitor how the consultants use the composites and thus we will not know who the ultimate recipients are. This in turn means that we will not know whether the prospective clients have met the minimum asset size requirements. And it is equally doubtful that the consultants will know whether the prospective clients have met the minimum asset size requirements.

We feel that this proposed requirement will not help us to address the way we provide composite data to consultants on a regular basis but rather hinder the way we deal with consultants. Also as a requirement, the proposal does not prescribe how our responsibility under the proposed requirement will be discharged in the above scenario.

We find this proposal can be discriminating and prohibitively restrictive. For example, any marketing efforts begin with prospective clients expressing interest in a firm’s track record or the firms soliciting the prospective clients’ interest with the track records or ideas. If this becomes a requirement, it will be discriminating as less established clients are less likely to be considered in any marketing efforts.

Moreover, assets from a prospective client might be difficult to assess and may also vary over time. If a prospective client identifies a track record as attractive, he could decide to invest more than initially foreseen.

If a fund manager has strong focus on retail money and should this requirement become effective, we wonder how the firms will be motivated to be GIPS compliant as the firms now realize that there are fewer opportunities or more restrictions on how to use composite data. This is contrary to what GIPS aims to achieve.

**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?**

*(there are 2 opinions on the timing)*



All disclosures are important. However, we would agree with the recommendation, which is to apply a 3 year sunset policy for the following disclosures:

- 4.A.19: significant events.
- 4.A.21: firm redefinition.
- 4.A.23: composite name change.
- 5.A.6.b: benchmark change when the entire historical record is replaced.

Yes, depending on the relevance for the client. For correcting errors and significant events we would recommend: only for 1 year.

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

Yes, we agree with the inclusion of short positions in the above provision. Firms should disclose presence, use, and extent of leverage, derivatives and/or short positions, if material, including a description of the frequency of use and characteristics of the instruments sufficient to identify risks.

A short position may be undertaken as part of an overall investment strategy which includes other long positions and derivatives. In such a case, it may be more appropriate to disclose the short positions if it is already a requirement to disclose the derivatives.

We also need more clarity on retrospective application of this disclosure.

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

Sufficient information to allow a prospect to understand the key characteristics of the strategy, including risks, must be included. While it is desirable for the description to include a discussion of risk, this new requirement could open a floodgate of new required language. Examining the “investment risks” section of any prospectus, which can be pages long, is a harbinger of what might happen to composite descriptions. Rather than encourage the firm to start making a laundry list of risks that a composite strategy may entail, another approach would be to simply require firms to describe the degree of risk that the strategy entails – the strategy takes moderate risk, or assumes a higher than average degree of risk as it seeks to achieve above average returns, or takes minimal risk in pursuing a capital preservation strategy. These are just some examples. We would reword the requirement something along the following lines:

*Firms must disclose the composite description, which must include a statement as to the degree of risk assumed while seeking to pursue the composite strategy.*

In addition to this wording change, modifying the Guidance Statement for composite definition to include applications of this approach would be encouraged.

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

*(Please note differing opinions on the above subject)*

No. Presentation of composite dispersion is sufficient.

We support adding this new requirement to show the 3-year standard deviation for the composite and the benchmark, and we appreciate the fact that the requirement is only for the most recent period. We also appreciate that the proposal to present this same information as of each annual period (not just the most recent period) is a recommendation, not a requirement. We are presuming here that the 3-year standard deviation would be calculated on the same basis as the returns that are shown, i.e. if gross returns are shown, then the 3-year standard deviation would be based on gross returns, and if net returns are shown, then it would be based on net. We would recommend making this explicit in the standard. We would add that it may be appropriate, in addition to requiring the 3-year annualized ex-post standard deviation that firms also show the three year annualized return for the same 36 month period. That way, the 3-year standard deviation figure can be compared more directly to the 3-year annualized return. An editorial suggestion we have here is that the requirement for the most recent period appears under Disclosures, whereas the recommendation to show the same information as of each annual period appears under Presentation and Reporting. The requirement and the related recommendation ought to appear in the same section (Disclosures or Presentation and Reporting), not in different sections. We would also recommend that an example be shown in the appendix that includes displaying how the 3-year standard deviation would be displayed, including how it can be made clear if the figure is based on gross or net returns.

No objections although in abstract there is little interpretational value I would suggest requiring this for the fund and benchmark and if possible over time.

An explanation of the implication and usage of this number should be included so that whoever is the reader is able to appreciate this piece of information.

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

*(Please note differing opinions)*

No

Yes. The percentage of the Composite assets that is composed of carve outs does not provide sufficient information.

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

No, we would disagree with the requirement. The source of funding for a strategy is not important to the success of a strategy. A firm's assets may include assets that are purely for corporate purposes and are not intended to be in strategies that will be offered to external clients. Such assets do not belong in composites, in our opinion. We would classify them as non-discretionary accounts managed for specialized purposes, or would even suggest that they be excluded from the firm definition. A particularly onerous implication of this standard is that seed capital used to kick off a new mutual fund is defined as "proprietary assets", which means that a firm would need to track the size of the initial seed capital for a new fund, which typically remains with the fund for a potentially lengthy period of time, until the account gets to be of sufficient size and/or the parent firm has other higher priority use for its capital. We oppose this requirement, which appears unnecessary, offers little benefit to the client, and would be onerous operationally to implement.

From a firm's perspective, some information on proprietary investments can be sensitive and thus should remain confidential. Also by disclosing such information, the firm may lose its competitive edge as other competitors may mimic same strategy.

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

Depending on the fund type and client this may not be practicable – for public or retail funds this makes sense but may not work for private funds where the client has a longer investment horizon. Clear disclosure of the valuation frequency should be sufficient.

No. Engaging an independent appraiser every year might be a cost issue for smaller firms. This requirement might distract small firms from implementing a GIPS organization. We suggest keeping this as recommendation, but not as a requirement.

**12. Do you agree with the additional requirements and recommendations for closed-end real estate funds as described (daily cashflows calculation method etc)?**

Yes.

**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?**

Yes.

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

I do not believe that existing clients should receive GIPS compliant presentations unless they request them. This adds an unnecessary and irrelevant overhead on the firm including the need to communicate and explain this reporting. This provision will not be welcomed by GIPS compliant firms.

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

Yes if the differentiation is relevant in terms of return or management characteristics.

**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)?**

*(Please note differing opinions on the above subject)*

Yes. So that verifiers have more standardized procedures to follow. We can also prepare the required information in advance before the verifiers audit us. It will improve the process.

No. How could the GIPS verifiers be made responsible for verifying compliance with all applicable laws and regulations? The costs of verification would be prohibitively high.

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

*(Please note differing opinions on the above subject)*

No. It is not easy to measure and obtain fair value. Getting a “fair value” for illiquid assets that don’t trade can be problematic. In addition, the concept of fair value may be well recognized in markets such as the United States and Europe, but it may not as familiar in some of the 30 or countries that have now adopted GIPS, or countries now seeking to adopt GIPS.

In principle yes but in practice there are significant obstacles – therefore as a statement of principle this is ok but I question whether they are relevant to performance standards and instead this area should be left as advisory if there are no accounting or valuation standards in place in a specific jurisdiction.

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



**Prospective client is defined as any person or entity that qualifies to invest in a composite strategy (e.g. Has assets above composite minimum asset level) and has expressed interest in one of the firm’s strategies. Existing clients may also qualify as prospective clients for any strategy that is different from their current investment mandate. Investment consultants and other parties are included as prospective clients if they represent investors that qualify as prospective clients.**

*(Please note differing opinions on the above subject)*

In principle, we do not agree with the definition as we do not see how the proposed definition adds extra meaning or value to how we already see prospective clients in existing unwritten conventional understanding. The definition also fails to elaborate the qualification criteria.

Should also remove the sentence: *“has assets above the Composite minimum asset level”*. This is because it may be difficult to track the assets and client may not wish to disclose.

Generally yes but should remove reference to assets which may not be known.

We also note that “prospective client” is a defined term and it seems very broad. The term “expressing interest” seems so all-inclusive as to include any person or entity, including competitors, journalists, commentators, data vendors, and the like. The phrase “that qualifies to invest in a composite strategy (e.g. has assets above the composite minimum...)” may be intended to exclude journalists and other individuals or entities that just want information and are not bona fide prospects that are candidates for actually committing funds to the strategy. Nevertheless, we would rephrase the definition to say “...and has expressed interest in committing funds to one of the firm’s strategies”. This would more clearly exclude competitors, journalists, and the like.

### **Additional Comments on GIPS2010**

#### **Proposed Standards on Error Correction**

We take every effort to ensure accuracy, objectivity and integrity of the composite data. We also take every effort to enhance procedures that are critical to mitigating errors and then identifying errors that do occur.

However we feels that the standards need to strike a balance between the principles of the standards and what is operationally efficient or feasible.

First of all, under the proposed standards, we need to resubmit revised data to existing clients who have received erroneous presentation. It would be operationally challenging as we need to keep a log of who have received what and when.

Secondly, the proposed standards on Error Correction do not really address what happens in reality. Sometimes, the data usage or circulation may be beyond the control



of the firms. For example, the firms normally provide or input data into consultants' database. Under such situation, the firms will not know whom the consultants have sent the data to. And if the firms were to send the revised data to the consultants, would that mean the responsibility to meet the requirement of the standards will be fully discharged though the firms may not know who the ultimate recipients are (and the firms usually may not have direct contacts with these ultimate recipients)?

Thirdly, we also see that there might be serious and potential legal implication of any claim of misrepresentation. We strongly feel that the requirements should be thoroughly considered and their implications carefully studied before it becomes effective.

As we may appreciate the spirits of the standards, we also believe that the proposed standards were never intended to introduce legal implications should they be adopted in practice. But we are not able to find comfort or clear guidelines within the proposed standards to address the potential legal implications. Thus we feel that the standards and their implications have to be carefully studied before they become effective.

We also believe the standards can be more efficient and effective if the standards can be enhanced by differentiating the prospective clients into different categories. By differentiating them, we can manage the resubmission and communication better so as to reduce unnecessary work and potential legal claims. For example, if a prospective client has received the erroneous data 12 months ago and has not acted upon it since then by either short-listing the firm or funding the account, then the question would be whether it is necessary to resubmit the revised data to them since the time lapsed has rendered the erroneous submission less material or inconsequential.

**Requirement 2.A.2: Firms must define large cash flow for each composite to determine when the portfolios in the composite are to be revalued for calculating performance.**

Previously, this standard read that for periods after 1 January 2005, firms must use approximated rates of return that adjust for daily-weighted external cash flows (e.g. Modified Dietz) and, for periods after 1 January 2010, firms must value portfolios on the date of all large external cash flows. The 2005 requirement is clearly moot by the time the 2010 Exposure Draft is released, and even the 1 January 2010 will likely have passed. What is confusing about the new wording, however, is that it is not clear that the definition of large cash flow corresponds to when the portfolio must be revalued. Moreover, the standard references large EXTERNAL cash flows in its first sentence, but then reverts to just "large cash flow" without the word external in the second sentence. This seems to be intentional since what used to be "large external cash flow" in the glossary has been changed to just "large cash flow". There is a footnote to 2.A.2 that references the two dates excluded from this standard. This seems awkward and buries the second date which we think should be restored to the standard itself.

To clarify this requirement, we would advise rewording the new sentence added to this requirement as follows (using the convention of capitalizing defined terms used in the actual draft). Restoring the 2010 date ensures continuity with what the previous version of GIPS had required. Given that the earlier 2005 date is moot, that date can remain in a footnote.

*Effective 1 January 2010, FIRMS MUST define LARGE EXTERNAL CASH FLOW for each COMPOSITE and revalue the PORTFOLIOS in that COMPOSITE on the date of any such LARGE EXTERNAL CASH FLOWS.*

We would *not* recommend deleting EXTERNAL from the term in the standard or in the glossary, since firms may treat internal (inter-segment) cash flows differently from external cash flows. For purposes of this standard, the key requirement is that portfolios must be revalued on the date of any large EXTERNAL cash flow, as defined. We would not recommend that the requirement to revalue portfolios be extended to large INTERNAL cash flows, which would only impact segment returns, not total returns. This extension is implied by the current wording in the 2010 Exposure Draft.