



CFA Institute  
Centre for Financial Market Integrity  
Reference: Global Investment Performance Standards  
P.O. Box 3668  
Charlottesville, Virginia 22903

## Re Global Investment Performance Standards (GIPS)

Dear Mr Boersma,

IPD (Investment Property Databank Ltd) is a global information business, dedicated to the objective measurement of commercial real estate performance. As the world's number one provider of independent real estate performance analysis IPD provides measurement services for over 1,500 individual real estate portfolios across 23 countries including most of Europe, the US, Canada, South Africa, Australia, New Zealand and Japan.

We have for many years supported the CFA for the continuing development of the GIPS framework. In the current economic climate standardisation and clear investor reporting is more vital than ever. We have the pleasure to enclose our comments on the GIPS 2010 exposure draft.

Our comments are guided by our real estate performance measurement experience.

### **0.A.7 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 within the last 24 months?**

We agree with including the disclosure of the firm's verification status. However we believe that a 24 month timeframe may in certain circumstances be too long and if higher frequency is not commercially possible the date of last verification should be included. The name of the verifying firm should also be recommended for disclosure.

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

Yes. We agree with this change.

### **3.A.1 Do you agree with the inclusion of non-fee paying discretionary portfolios in composites?**

No comment.

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**3.A.9 Do you agree with changing 3.A.9 from a recommendation to a requirement?**

Yes. We agree with this change.

**4.A. 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?**

Disclosures that are made irrelevant by market conditions and/or changes in investor demands over time might be removed in a subsequent GIPS release, but none of those listed in 4.A appear to us at present to warrant fixed life inclusion.

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

We agree. In addition we believe any currency hedging strategies utilised at firm, composite or fund level should be disclosed. Provision 4.A.4 could be amended to "FIRMS MUST disclose the currency used to express performance and describe any currency hedging within the composite".

**4.A.20 Do you agree requiring the disclosure of key characteristics and risks in the composite description?**

Yes. We agree with this change.

**4.A.29 Do you agree with the inclusion of a standard deviation disclosure?**

We agree. Standard deviation is a basic risk measure. There are other risk measures available for real estate composites, but standard deviation is common across other asset classes and should be included. For real estate, however, it will rarely be possible to compute this for more than quarterly periods, and so longer measurement periods (5 or even 10 years) should be recommended.

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

No comment.

**5.A.8 Do you agree with the requirements to present the percentage of the composite assets composed of proprietary assets?**

No comment.

## **Section 6 - Real Estate**

### **6.A.2 Do you agree that real estate investments must be valued by an independent external appraiser every 12 months beginning 1 January 2011?**

We agree with this requirement. IPD's coverage of 23 developed real estate markets shows that the most common appraisal time frame and procedure is ANNUAL EXTERNAL. We would suggest a further recommendation of a synchronisation of appraisals to a calendar year end. The table below shows the developed countries around the world and their market standard appraisal timetables and internal / external regimes.

<b>Country</b>	<b>Frequency</b>	<b>Regime</b>
Australia	Annual/Quarterly	External / Internal <sup>1</sup>
Austria	Annual	External
Belgium	Annual	External
Canada	Annual/Quarterly	External / Internal <sup>1</sup>
Denmark	Annual	External
Finland	Annual	External
France	Annual/Biannual	External
Germany	Annual	External
Ireland	Quarterly	External
Italy	Annual/Biannual	External
Japan	Annual	External
Korea	Annual	External
Netherlands	Annual/Quarterly	External
New Zealand	Annual/Quarterly	External
Norway	Annual/Biannual	External
Poland	Annual	External
Portugal	Annual	External
South Africa	Annual	External
Spain	Annual	External
Sweden	Annual	External
Switzerland	Annual	External
United Kingdom	Annual/Quarterly/Monthly	External
United States	Annual/Quarterly	Internal <sup>2</sup>

Note 1 – internal quarterly, annual external (year end)

Note 2 – majority of market internal quarterly, external 3 years

There are arguments regarding the additional costs of external appraisals, however it has been shown in markets such as the UK (where external quarterly, and a significant part of the market does monthly external) that over a short period of time the supply / demand characteristics of the appraisal markets pushes down the cost of obtaining external appraisals. By moving to a full external annual and quarterly regime would also see management firms save costs by not maintaining

internal appraisal teams and the associated data gathering and database maintenance costs.

Globally we do not believe the annual external requirement is a serious issue; however outside of a few markets (North America, UK, Ireland, Australia and Netherlands which quarterly appraise) the issue of obtaining a quarterly FAIR VALUE appraisal, as required by 6.A.1, is a potential problem. Many markets across mainland Europe and Asia have standardised around an annual external appraisal process, with some moving to a twice yearly regime. Quarterly will be some time away. However we strongly support the quarterly requirement in 6.A.1 as a best practice that should be aspired to.

**6.A.5+ Do you agree with the additional requirements and recommendations for closed-end real estate funds as defined?**

We support the closed-end real estate fund requirements and recommendations in principle however would support changing 6.B.2 to “quarterly cash-flows”. The use of daily cash flows in real estate is limited.

**6.A.15 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?**

We agree with the component return disclosure requirement and the dropping of the method described in 6.A.9.b.

**8.A.6 Is it appropriate and / or necessary to include provision 8.A.6, which addresses presenting performance to existing clients, in the GIPS standards? Should firms be allowed to present a “sponsor-specific composite” as opposed to a “style-specific composite”?**

No comment.

**Section III.B Should specific verification procedures be included for GIPS provisions 0.A.16 and 0.A.17?**

We do not believe additional procedures are required for 0.A.16 or 0.A.17.

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

We agree with Appendix D provisions as they related to real estate. The provisions appear in line with the recommendations of national and global real estate valuation bodies such as RICS, ISVA and the US Appraisal Institute.

Thank you for the opportunity to respond to the proposed GIPS 2010 standards. We strongly support your work and will look to promote knowledge of GIPS and its application for real estate across the IPD client network.

We look forward to seeing the adoption of the GIPS framework across Europe and the rest of the world. If there are any further questions regarding our comments please do not hesitate to contact either myself ([ian.cullen@ipd.com](mailto:ian.cullen@ipd.com)) or Nazma Kurimbokus ([nazma.kurimbokus@ipd.com](mailto:nazma.kurimbokus@ipd.com)).

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Ian Cullen', written in a cursive style.

Ian Cullen  
Co-Founder, Head of Systems  
Investment Property Databank Ltd