

Lorrie Reiterman's response to the GIPS Executive Committee's (EC) invitation to comment on proposed GIPS 2010 Exposure Draft:

O.A.7. GIPS Compliance Statement – We agree it is okay to change the verification status from a footnote disclosure to inclusion in the claim of compliance. However, it is sufficient information to give the verification periods, without having three different types of claim paragraphs. Instead, one claim should be if you were verified and the time periods covered; the other claim should be if not independently verified. This would be less confusing for clients, and they can always ask about current verification or verification cycles. Regarding the 24 months definition (if you use the 3 different types of claims), what if a firm does their verification on a 2 year rotation, but it takes a month to prepare the information and a few more months to get the verification completed – do the proposed standards then mean you have to say you're not currently independently verified, while you are getting the 2 year period verified?

O.A.11 GIPS standards should not be expanded to require providing compliant presentations to all prospective clients. It is requirement enough to provide appropriate presentations to prospective clients who request them. Disclosures already indicate the various items that are available upon request – GIPS EC should keep to the core of performance calculations input and the actual compliant presentation format requirements and not expand its reach to business decisions with a list of rules about what and how firms have to provide info to their clients and prospective clients.

O.B.2 Providing an annual Compliant Presentation for the Composite(s) in which the client's portfolio is included should not be included in GIPS standards at all – either as a recommendation or a requirement (see comments above in O.A.11 about overreaching boundaries into firm – client relationships). Both consultants and clients, especially institutional clients, require the investment manager to provide specific information on their statements as well as their presentations. Requiring the IM to include information that the consultants and clients are not requesting will cause more problems than what the ultimate objective is. This is excessive information that they do not want or need. Consultant and clients dictate what they need or require. It should not be up to GIPS EC to determine what the needs are.

1.A.2. & 1.B.1. Fair Value – Although consistent with FASB, this idea of independent fair valuation is regulation gone amuck and does not appear to work very well from a practical standpoint. Pricing services are providing either no comment or vague suggestions as to where the security "may" fall in the hierarchy, thus passing the designation on to the pricing service customer. The pricing service's customer is relying on the service provider to make the designation, so as not to appear biased in its "Fair Value" reporting. No independent third party provider or custodian will commit to determining "Fair Value designation." The customer then provides a guideline of the hierarchy to their clients, requiring the client (ultimate recipient) to make their choice as to how the security may be valued. This "merry-go-round" of "Fair Value Designation" provides no benefit to anybody, creates unneeded workloads and costs, and ultimately leaves the client with no change in what they rely on. This does not increase accuracy, transparency or provide any more reliability of the valuations used to calculate performance than market value did. The only change this really accomplishes is disclosure on items that are valued with unobservable input. Regulation would have been better served to just include more specific disclosures on market valuation procedures and input.

That being said, it generally makes sense that GIPS follows the same policies and implements fair value instead of market value, unless or until regulations change. In the GIPS requirements and

recommendations, however, I hope we can just have a disclosure regarding implementation of FAS 157, instead of restating everything regarding FAS 157 valuations in the GIPS presentations.

1.A.3.b) If you haven't already done so, you should consider exceptions for valuing real estate portfolios with cash flow, since these assets are not as easily valued on a daily basis?

3.A.1. Non-Fee Paying Portfolios – This is exactly what they are, no fee income to the investment manager. In most cases, we don't even calculate or report performance to our non-fee paying clients, so it is problematic to add them to our composites. The decision of the firm to include non-fee paying portfolios in a composite(s) should remain up to the manager, not be a requirement. This requirement will impose costs on the manager without providing any benefit to the firm or the client.

3.A.9. Disagree - Should remain a recommendation; not a requirement.

4.A.7 & 4.A.8. These should be recommendations – not requirements, due to the requirements of having to determine how various benchmarks treat dividends, exchange rates, and valuations, which may not be easily determined.

4.A.12. Fee schedule on Compliant Presentations – Most major client fee schedules are negotiated during contract discussions. If required, fee schedule definition should be clarified that either actual or a maximum fee schedule for the Composite is acceptable.

4.A.19. "All significant events" to "help interpret performance" is a pretty broad requirement. Should be made a recommendation, and do you have guidance on what you consider significant?

4.A.20. Addition of too many detailed characteristics puts Balanced managers or managers with more investment style flexibility into boxes that may not really be appropriate. Requirement should remain as a description; Recommendation for any additional characteristics, including risks, that may be helpful in understanding strategy.

4.A.29. We don't mind the addition of standard deviation; however if you are requiring 3 year annualized with a minimum of monthly periods, it needs to not be required until 3 years after the monthly composite weightings take effect, which I believe would be January 1, 2013.

4.A.& 5.A. Disclosure removal of name changes, composite redefinition, and benchmark changes should be allowed at a minimum after 10 years and after 5 years would also be acceptable.

5.A.8. I do not read this section as requiring proprietary assets to be in a composite; just that if they are, the percentage must be disclosed. Is that correct? Proprietary assets should not be included in total firm assets under management, and should not be required to be included in composites.

6. Real Estate – I see several valuation organizations discussed in the valuation principles section; however, I did not see any discussion of NCREIF. When originally adopting and now modifying your standards, did you work with NCREIF at all to ensure significant standards were consistent?

6.A.2. I would rather see every 24 months, or a clarification that completed / operating properties be valued every 12 months, with a different guideline for properties under development. Properties under

development can take more than 12 months to complete; valuation of these every 12 months could be irrelevant and costly.

6.A.9.b Agree this method should not be used.

6.A.15. Component returns should be a recommendation; not a requirement.

6.B.5. This should stay a recommendation, as you have it. We are required to get permission to present component benchmark returns from the provider, which they allow for some purposes and not for others.

Thank you for the opportunity to comment on these proposed standards. In general, I am very disappointed in the direction the CFA Institute has taken the past several years. I believe you have become much less results and client focused and much more bureaucratic and process oriented. I believe the original intent and goal of the organization was education of and establishment of ethical and professional standards for investment professionals, so we are able to better serve our clients as fiduciaries, keeping their best interests in the fore-front. It seems the various committees have veered to become much more process and 'do's and don'ts' oriented, resulting in reallocation of resources to documentation, processes and procedures. I hope in the future, as you amend not just these standards, but the code of ethics, the soft dollar standards and others, that you keep in mind the final goal of having an organization of educated and ethical professionals that help clients meet their investments goals; instead of having mounds and mounds of paperwork, disclosures, and documentation.
