2010 GIPS

June 2009

Comment on Exposure Draft

Summary of Proposed Revision to the GIPS Standards

- 4. Firms should not be required to present the standard deviation of the composite and benchmark because this specific risk measure is not adequate especially for products such as broad balanced composites with several accounts and where strategies are not exactly all the same.

0. Fundamentals of Compliance

The language of the Standards should be changed as follow in certain areas.
<u>Examples</u> :

- 0.A.3 : The word "defined" should be deleted from the footnote in order to be consistent with the provision.
- 0.A.7 : As all requirements must be met, the word "applicable" should be deleted in paragraph 1.
- 0.A.17 : What is considered "false" or "misleading" ? What are the consequences of presenting "false" or "misleading" information ?
- <u>Question</u> : Do you agree with including disclosure of the firm's verification status in the claim of compliance ? First of all, the exact verification period should be mentioned. In order to be transparent, there should only be 2 status : "verified" and "non verified". The "verified" status should be used if the verification report covers a period ending not more than 24 months ago.
- <u>Question</u> : Do you agree with the classification of a current verification being within the last 24 months ? No. See above.

1. Input Data

- 0.A.3 : The word "defined" should be deleted from the footnote in order to be consistent with the provision.
- <u>Question</u> : Do you agree with the change from market value to fair value ? Basically yes, but some aspects such as the treatment of delayed prices should be clarified.
- 1.A.3 : Would it not be more simple to value a fund on date of all external cash flows ? Would "small" external cash flows mean part MDR and part TWR for returns ?
- 1.B.4 : We recommend to change it from a recommendation to a requirement and place it in section 1.A.

2. Calculation Methodology

- 2.A.2 : The use of the money-weighted return methodology (IRR or Modified Dietz) should be allowed if the manager controls the timing and size of external cash flows.
- 2.A.7 : The wording "FIRMS MUST NOT use estimated TRADING EXPENSES" should be removed as it is already in 2.A.5.

3. Composite Construction

- <u>Question</u> : Do you agree with requiring the inclusions of non-fee paying discretionary portfolios in composites ? Yes we agree. If an account is managed on a discretionary basis, it must be included regardless of the fee-paying status.
- <u>Question</u> : Do you agree with changing 3.A.9 from a recommendation to a requirement ? No, we do not agree. A client may approach a firm with an initial intention to invest some money into the firm without being decided at an initial approach.
- 3.B.1 : This provision is already in the Guidance Statement on Significant Cash Flows so it should be removed from the main body of the GIPS. In addition, the solution of using temporary new accounts is not applied in many firms.

4. Disclosures - Requirements

- Question : 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 ? Yes, we believe that the following disclosures should be allowed to be removed if it is determinated by the firm the disclosure is no longer meaningful. Therefore, the disclosures should be removable after 5 years. This should affect provision 4.A.19, 4.A.21, 4.a.23 & 5.A.6.b.
- Question : Do you agree with the inclusion of short positions in provision 4.A.5 ? : Yes, we do. This would be beneficial for prospective clients. 4.A.8 : The word "material" should be defined.
- Question : Do you agree with requiring the disclosure of key characteristics and risks in the composite description ? Yes. The disclosure of key characteristics and risks of the composite should be required. Providing a disclosure of key characteristics and risks in the composite is very important for a prospective client so they get a good understanding of the composite & investment strategy and therefore can differentiate between similar composites. We think though a composite description should not be too specific, otherwise it will limit the number of accounts that can enter the composite.
- Question : Do you agree with the inclusion of a standard deviation disclosure ? No, we do not agree because this specific risk measure can be inadequate for some investment products.
- 4.B.2 : This recommendation should be turned into a requirement and be applicable upon request only.
- 4.B.3 : There should be a requirement in the GIPS standards that firms must disclose the composition and nature of the benchmark (if there is a defined benchmark for a given composite). Especially for balanced composites for instance.

5. Presentation and Reporting

- Question : is it appropriate to discontinue disclosure 5.A.5 for periods after 1 January 2011 ? Yes, it is appropriate.
- 5.A.6.c : should be a requirement.
- 5.A.7 : This disclosure requirement should be deleted because no differentiation will be made between fee-paying and non-fee paying portfolios going forward.
- Question : Do you agree with the requirement to present the percentage of the composite asset composed of proprietary assets ? No. We do not agree with this disclosure. This information will not be of added value for potential investors.
- 5.B.7 : Other adequate risk indicators should also be permitted in cases where standard deviation is not appropriate.

6. Real Estate

- Question : Do you agree that real estate investments must be valued by an independent external appraiser every 12 months beginning 1 January 2012 ? No wee do not agree because the deadline is too short. This requirement should be turned into a recommendation at the moment. In addition this valuation will represent an increased cost to firms.
- Question : Do you agree with the additional requirements and recommendations for closed-end real estate funds as defined ? We think that it should stay as a recommendation.
- 6.A.7 : Firms should have flexibility to construct composites. Therefore, we do not agree with the proposed requirement.
- 6.A.8.c : We suggest to delete this provision. Introducing aspects of financial reporting into the performance reports is additional complexity.
- Question : 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 January 2011 ? Yes, we agree.

- 6.A.15 : “component return” should be definded in the GIPS glossary.
- 6.A.17 : The last sentence of this requirement is in contradiction with provision 5.A.3.

8. WRAP Fees / Separately Managed Accounts

- Question : It is 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, the aim of the GIPS standards should stand for prospective clients. The extension to performance presentation to existing clients should be addressed in a separated dedicated GIPS guidance.

III. Verification

- Section A, Provision 7 : The difference a “verifier” and a “verification firm” should be clarified.
- Question : Should specific verification procedures be included for GIPS provisions 0.A.16 and 0.A.17 ? No, these rules should not be part of GIPS.

Appendix E : GIPS Glossary

- Question : Do you agree with the definition of prospective client ? If not, how should it be defined ? Yes, we agree with the proposed definition. It could be helpful to have more distinction between “investment consultant” and “third parties”.

Other general observations

- We think verification should be mandatory.

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