



The Security Analysts Association of Japan

5F, Tokyo Stock Exchange Bldg., 2-1, Nihonbashi-Kabutocho,
Chuo-ku, Tokyo 103-0026 Japan

Telephone: (03) 3666-1515

Facsimile: (03) 3666-5845

E-mail address: intl@saa.or.jp

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GIPS Executive Committee
c/o CFA Institute
Centre for Financial Market Integrity
Reference: Global Investment Performance Standards
P.O. Box 3668
Charlottesville, Virginia 22903

Re: Comments on Exposure Draft of Revised GIPS 2010

Dear Sir/Madam,

Thank you for your invitation to comment on the Exposure Draft of the Revised Version 2010 of the Global Investment Performance Standards (GIPS). We are pleased to submit our comments on the draft.

The Security Analysts Association of Japan (SAAJ) is a not-for-profit organization for investment professionals consisting of more than 22,000 individual members who hold the CMA[®] (Chartered Member of SAAJ) designation and 530 corporate members from the broad financial/investment industry.

SAAJ, the GIPS Country Sponsor in Japan, has translated the exposure draft into Japanese to solicit comments from SAAJ members and other related parties. As a result, SAAJ has received comments from total twenty-one (21) institutions/individuals: nine investment management firms; two trust banks; four auditing firms; the Japanese Institute of Certified Public Accountants (JICPA); Pension Fund Association; and four individuals including SAAJ Investment Performance Standards (IPS) Committee members.

The comments below (page 2 to 18) have been developed as the GIPS Country Sponsor in Japan based on a review of the above comments by the SAAJ IPS Committee which is chaired by Mr. Yoh Kuwabara consisting of 28 members from investment managers, verifiers, pension plan sponsors, consultants, and service providers.

Thank you again for the opportunity to comment on the Exposure Draft. We hope that the comments will be considered and reflected in the final version of GIPS 2010.

Sincerely yours,

Kazumichi Karita
Senior Vice President
The Security Analysts Association of Japan

COMMENTS ON GIPS 2010 AS A WHOLE

- Introduction and Preface

[Section I](#) “Introduction” is not included in the GIPS 2010 exposure draft although it was in the GIPS 2005 exposure draft. As Section I contains important elements such as the GIPS standards’ objectives, scope, compliance, and implementation, we request that the GIPS Executive Committee (EC) open the draft of [Section I](#) to the public for comments.

Also, we request the GIPS EC to open the draft “[Preface](#)” to the public so that we can confirm if the roles of GIPS Country Sponsors and their contributions that have been made to the development of the GIPS standards are properly incorporated.

- Requirements

With respect to [0.A.15](#), we are concerned that “requirements” could be easily added in interpretive materials such as Guidance Statements and Q&A. We understand that the main reason for creating interpretive materials is to provide guidance for applying the existing required/recommended provisions of the GIPS standards to certain business situations and issues. Expansion of the GIPS standards by adding new “requirements” in Guidance Statements and Q&A would cause unnecessary confusion to investment managers and verifiers (if guidance is necessary for any new issues not addressed in existing GIPS standards, “recommendations” should first be considered). Accordingly, we request the GIPS EC and Interpretations Subcommittee to establish policies regarding the purposes of creating Guidance Statements and Q&A and the relevant process including the points mentioned above.

- Usage of wording for periods to which the 2005/2010 standards are applied

The usage of wording regarding periods to which the 2005/2010 standards are applied is very confusing for users. What is the difference among “periods beginning prior to”, “periods prior to”, and “periods ending prior to”? Also, between “periods beginning on or after” and “periods after”?

As the meaning of “periods” is vague (annual/quarterly/monthly reporting periods?), since the exposure draft mentions “for periods beginning prior to 1 January 2011” as in footnote 1 of [0.A.3](#) and footnote 2 of [1.A.2](#), it may be interpreted that the 2005 version can be applied to the annual period beginning 1 April 2010 ending 31 March 2011 (April to March fiscal year is popular in Japan). On the other hand, if they are described as “for periods prior to 1 January 2011” or “for periods ending prior to 1 January 2011, it seems clear that the 2005 version can only be applied to the annual/quarterly/monthly periods ending prior to 1 January 2011.

In the interest of clarity, all such wordings should be checked, appropriately amended, and used consistently throughout the whole of the GIPS text.

COMMENTS ON SPECIFIC PROVISIONS

- 0.A.7

Do you agree with including disclosure of the firm’s verification status in the claim of compliance?

We agree with including disclosure of the firm’s verification status in the claim of compliance. However, three categories corresponding to the firm’s verification status should be two by deleting category 2 (“FIRMS that have been verified, but are not currently verified”): i.e. (1) firms that have been independently verified; and (2) firms that have not been verified.

Reason:

It is questionable if the status that the firm was verified in the past but is not currently verified has any meaning for its current compliance statement. Also, there is a risk that recipients (clients) of the category 2 firm’s compliance statement may have unrealistic expectations about non-verified periods although verifiers’ opinions only cover the periods subject to verification.

With respect to category (1) above, the exposure draft mentions “FIRMS that are currently verified”. The word “currently” is vague as to whether verification has been completed or is in the process of being completed and therefore should not be used. To make it clear that the firm’s verification for the most recent period has been completed, it should read “FIRMS that have been independently verified”.

Do you agree with the classification of a current verification being within the last 24 months?

We agree that firms are considered as having been independently verified if the verification report covers a period which ended not more than 24 months ago.

Reason:

In such cases where mergers and acquisitions occur, it is supposed that longer time than usual (e.g. more than 12 months) is necessary to verify periods as a new firm. Therefore, it is appropriate to consider a firm with a verification report for a period which ended not more than 24 months ago as having been verified.

In addition, we propose that “For purposes of this provision, a VERIFICATION is considered current if the VERIFICATION REPORT covers a period ending not more than 24 months ago” should read:

“For purposes of this provision, FIRMS are considered as having been independently verified if the VERIFICATION REPORT covers a period which ended not more than 24 months ago and also if the FIRM plans to be continuously verified in the following periods.”

- 0.A.12, 0.A.13

It seems that there is a difference in meaning between “a complete list and description of the FIRM’s COMPOSITES” in 0.A.12 and 0.A.13 and “the COMPOSITE DESCRIPTION which must include sufficient information ... to understand the key characteristics of the

COMPOSITE” in 4.A.20. The difference should be clarified. The word “description” in 0.A.12 and 0.A.13 should be replaced by an appropriate one because the use of the same word in a different manner in different provisions is very confusing and also what “description” exactly means is originally vague (not so easy to accurately translate into Japanese).

- 0.A.16, 0.A.17

We do not have any objection to the content of 0.A.16 and 0.A.17. However, as these provisions should not be the subject of verification, they should be moved to Section I “Introduction”.

- 1.A.1

Guidance should be provided, for instance in Guidance Statements, to address application of 1.A.1 to “supplemental information” regarding to what extent supporting data/information must be maintained (whether maintenance of data/information to restore supplemental information is sufficient).

- 1.A.2

Do you agree with the change from market value to fair value?

We agree with the idea that portfolios with assets which cannot be valued at market value should also be the subject of the GIPS standards when the portfolios are managed for certain strategies. We therefore agree with the incorporation of the “fair value” concept which contains “market value”.

However, we have different opinions with respect to Appendix D “GIPS Valuation Principles” which provides the definition of “fair value” and valuation process, and we propose revisions (see comments on Appendix D, page 16).

- 1.A.4

When valuing foreign investment trusts (mutual funds) as of the calendar month-end, the closing price of the previous day at local markets is used as current market value available at cut-off time. It should be clarified in Guidance Statements or Q&A that such a practice is allowed in applying 1.A.4 to foreign investment trusts.

- 1.B.1

Interpretive guidance should be given with respect to “a qualified independent external third party”. For instance, there is a question as to whether a trust bank’s real estate division is considered a qualified independent external third party or not when such a division values real estate portfolios of the same trust bank’s asset management division.

- 3.A.1

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

We agree. However, guidance should be given regarding such matters as below:

- Definition and examples of non-fee paying discretionary portfolios.
- When the fund itself does not directly charge fees (e.g. fees are charged on a baby fund but not on its mother fund), does such a fund (mother fund) come under “non-fee paying portfolios” or not? In addition, what about fee disclosure in such a case?
- Treatment of such baby and mother funds in composite constructions since a part of their assets are duplicated.

- 3.A.6, 4.A.11, 5.A.5 (carve-outs)

3.A.6

We do not agree with 3.A.6. All of the comments that SAAJ received (total eleven including asset managers, verifiers, and an investor) request GIPS EC to retain the current rule even after 1 January 2010: i.e. a carve-out from a portfolio using a pre-determined consistent cash allocation method should continue.

Reason:

The cash allocation method is pre-determined and has systematically been applied by firms in a consistent manner. There is no significant problem in continuously using the method after 1 January 2010.

Many firms would not be able to continue carve-outs following prohibition of the cash allocation method as separate cash management is costly and unrealistic. Losing useful disclosures would rather bring disadvantages to clients.

As the definition of carve-out has changed in the exposure draft, more explanation should be given in relevant Guidance Statements to avoid confusion.

4.A.11

Assuming that the cash allocation method will continue, “For periods beginning prior to 1 January 2010,” should be deleted in 4.A.11.

5.A.5

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

As carve-outs will still exist in some way even after 1 January 2010, it is not appropriate to discontinue disclosure 5.A.5 for periods after 1 January 2011. Regardless of the periods before or after 1 January 2011, the percentage of the composite assets that is composed of carve-outs should be disclosed. Therefore, “and ending prior to 1 January 2011” should be deleted.

- 3.A.9

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

None of the comments SAAJ received (total nine including asset managers, verifiers/JICPA, and investors) agreed with changing 3.A.9 from a recommendation to a requirement. It should be moved to Section 5 “Presentation and Reporting” as a recommendation.

Reason:

Even if the amount of a prospective client’s assets is less than the composite’s minimum asset level, composite information may be useful for the client when evaluating other composite strategies of the firm. Such an opportunity should not be restricted. (Comments from investors.)

Presentation of composites at conferences and/or in advertisements may be restricted.

- 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?

As far as the following disclosures of changes are concerned, we agree that firms be allowed to remove disclosures after a defined period of time. A five-year disclosure period, at least, is appropriate for any of the following items:

- 4.A.3: changes to the minimum asset level
- 4.A.21: the date, nature, and reason for the redefinition of a firm
- 4.A.22: the date, nature, and reason for the change to composite definitions
- 4.A.23: changes to the name of a composite
- 5.A.6.b: the date, nature, and reason(s) for the change of the benchmark

Reason:

A five-year disclosure period, at least, is in line with 0.A.12 which requires firms to list closed composites on the firm’s list of composites for at least five years after closure.

- 4.A.5, 4.A.20, 4.A.29, 5.B.3 (disclosures of risk information)

4.A.5

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

We agree with the inclusion of disclosures on the presence, use, and extent of short positions in 4.A.5. However, guidance is indispensable to address the definition of short positions, materiality, sample disclosures, whether disclosures for the most recent period are sufficient or not, etc.

[4.A.20](#)

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

We do not agree with [4.A.20](#). The aims are understandable but in practice it cannot be a requirement because “sufficient information ... , including risks” is vague. In order to make it a requirement, it is indispensable that interpretations and guidance be provided in Guidance Statements regarding such points as below:

- What items are recommended as relevant composite-level risk measures ([5.B.3](#)) in addition to required disclosures ([4.A.5](#) and [4.A.29](#)) and also what level of disclosures is considered as “sufficient” in the composite description
- Disclosures of nature of risk (information would be different depending whether risk is related to the composite strategy or measured based on historical composite performance data)
- A clear statement that any applicable laws and regulations in each country/region regarding asset managers’ responsibilities for explaining risk to clients will supersede the GIPS provisions for risk disclosures

In addition, Guidance Statements should also consider disclosures when:

- a composite has a rating criteria for selection and management of certain stocks;
- a composite includes securitized products and/or investment products which cannot be valued at market value;
- a composite has a restriction on redemption and/or policy regarding treatment of redemption requests; or
- a composite includes new products which firms have not managed before (e.g. description of characteristics of new products and risk management methods)

[4.A.29](#)

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

We agree. Guidance is necessary when a composite does not have a three-year track record as [4.A.29](#) requires the three year annualized ex-post standard deviation.

[5.B.3](#)

As [5.B.3](#) is the provision for disclosures of risk information, it should be moved to Section 4 “Disclosures”. In addition, as mentioned above, guidance is indispensable with respect to what items are recommended as additional relevant composite-level risk measures.

- [4.A.7](#)

Guidance should be given to determine “materiality”.

- 4.A.16

Guidance should be given regarding the use of model investment management fees including in what cases model fees can be deducted.

- 4.A.22

When firms review their composites for the purposes of making composite presentation more useful for clients, we understand that firms usually take steps such as “close of some composites” and “construction of new composites based on new classification”, not by the “redefinition of composites”. On the other hand, there may be a case where presenting continuous performance (with the past record being linked to the current one) by using “redefinition of composites” would be useful for clients. In such a case, retroactive application of composite redefinition should be allowed. We request that relevant guidance be provided to address terms of conditions for retroactive application of composite redefinition.

- 4.A.23

The reason for changes to the name of a composite should also be required to be disclosed.

- Old 4.B.2

The provision under [old 4.B.2](#) (a recommendation for disclosing when a change in calculation methodology or valuation source results in a material impact on composite performance) is deleted. On the other hand, [item 9](#) of [Appendix D](#) “GIPS Valuation Principles” states “If a change in valuation methodology gives rise to a material change in the valuation, the description and the effect of the change SHOULD be disclosed”. This [item 9](#) should be clearly indicated in the main body of the GIPS standards as a requirement, not a recommendation, because information about a material change in valuation caused by a change in valuation methodology is most important for clients.

- 4.B.2

It should be clarified whether disclosure of key assumptions is recommended for the most recent period or for each annual period.

- 4.B.3

The provision [4.B.3](#) should be a requirement.

- 5.A.2

It is unclear what “the disclosure REQUIREMENTS” means. For easier understanding, it should read “the provision 4.A.10”.

- 5.A.4

As combined operations after acquisition do not always progress smoothly, it is requested

that “1 year” to bring any non-compliant assets into compliance, as required in item [5.A.4.c](#), should be “2 years (or 3 years)”.

What the word “affiliation” represents is not easily understood for non-English speaking people. It should be replaced by other wording or the meaning explained.

- [5.A.6](#)

There may be cases where the only available benchmark for a composite is index reflecting capital return but not income return. Also, an index which is not a total return index may be used even if a total return index exists but is not well-known or not so utilized. It should be clarified in Q&A that such an index which is not a total return index can be used.

- [5.A.8](#)

Do you agree with the requirement to present the percentage of the composite assets composed of proprietary assets?

We do not agree with provision [5.A.8](#) being a requirement although we think that such information would be helpful for clients, and suggest that it should be a recommendation. This is because there are cases where it is difficult for a firm to know the assets owned by the firm’s parent company as the definition of “proprietary assets” includes not only assets owned by the firm but also those by the firm’s management and the firm’s parent company. For instance, the firm cannot know the amount of its investment trusts (mutual funds) which have been acquired by the firm’s parent company through an investment trust sales company.

- [6. Real Estate - preface](#)

As for the application of the real estate provisions to a portfolio including a mix of real estate and other investments, it is unclear what “the majority of the fair value of portfolio investments is real estate” means because it is uncertain when the percentage of the portfolio assets represented by real estate is measured. If it is at the end or beginning of each annual period, it is not appropriate as the real estate provisions may be applied to the portfolio for a certain annual period but not for another period. We propose that whether the real estate provisions must be applied or not should be determined by the allocation of the portfolio assets to real estate as the investment strategy when the portfolio is constructed.

Also, if the cash allocation method continues after 1 January 2010, it should be clarified that the real estate portion of the portfolio can be carved out.

SAAJ received comments that real estate provisions should always be applied to the real estate portion of the portfolio regardless of whether the portion represents the majority of the portfolio or not.

- [6. A.1](#)

In Japan, quarterly valuation has not progressed (see note below) and the requirement is

a hurdle for the real estate investment industry to become compliant with GIPS.

To stimulate compliance, we request GIPS EC to provide guidance for issues such as internal valuation practice on a quarterly basis and the relationship between quarterly internal valuation and annual external valuation (e.g.: How is performance calculated when there is a difference between internal and external valuations? In such a case can only quarterly internal valuation be used to calculate annual performance?).

Note: According to “Results of Questionnaire Survey on Private Placement Real Estate Funds – First Half of the Year 2008” issued by STB Research Institute, 15 August 2008, 72% of the respondents conduct annual external appraisal (83% when including 9% of the respondents conducting semi-annual external appraisal and 2% conducting quarterly external appraisal). However, only 13% conduct quarterly internal valuation while another 13% conduct semi-annual internal valuation. The total number of respondents was 57 real estate investment management firms.

- 6. A.2

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

We agree with the requirement as annual external appraisal has spread to some extent while quarterly valuation has not progressed so much in Japan (see note above).

However, as mentioned above, it is indispensable that guidance is provided regarding issues such as the relationship between “quarterly valuation at fair value” and “annual external valuation”: treatment when there is a difference between internal and external valuations; use of internal/external valuations in performance calculation; and whether external appraised values should also be disclosed when internal values are used in performance calculation.

Some comments that SAAJ received do not agree with the requirement indicating a concern that increased expenses by adopting quarterly valuation and annual external valuation may adversely affect the returns of real estate investment management firms, in addition to the concern about the relationship between internal and external valuations as addressed above.

- 6. A.4

The exposure draft requires closed-end real estate funds to present both time-weighted rate of returns (total and component returns) and annualized SI-IRR. However, there is no rational reason for requiring TWRR from closed-end real estate funds because cash flows are controlled by the firms similar to the case of private equity investments and private equity funds which are also closed-end are not required to present TWRR in Section 7.

- 6. A.6

Do you agree with the additional requirements and recommendations for closed-end real estate funds as defined?

We agree with 6.A.6.

- 6. A.8

It should be clarified whether items 6.A.8.c, d, and e are required for the most recent period or for each annual period.

It should be clarified whether “the composite assets valued using external valuation” in item 6.A.8.e includes assets which were valued by an external appraiser but for which external appraised values were not used in performance calculation. (We understand that there may be cases where external appraised values are not used in performance calculation because 6.A.8.c requires firms to disclose the impact of material differences between the external valuation and the valuation used in performance reporting.

We propose that disclosure of the percentage of the composite assets using leverage should be added as a requirement because such information is important and useful for investors.

- 6. A.10

6.A.10 should simply read:

“For any performance presented for periods prior to 1 January 2006 that does not comply with the GIPS standards, FIRMS MUST disclose the period of non-compliance.”

The proposed amended provision 6.A.10 above also covers closed-end funds and therefore 6.A.11 is not necessary because firms must present at least five years of compliant performance for closed-end funds in accordance with 6.A.17.

- 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. Component return disclosure is most useful for clients and there is no problem in requiring the use of the specified method (6.A.9.a) only.

- 6. A.16

It is unclear what “the disclosure REQUIREMENTS” means. For easier understanding, it should read “the provision 6.A.10”.

As 6.A.16 should be applied regardless of whether performance is TWRR or SI-IRR, it should read as follows (see also comments on 6.A.10):

“FIRMS may LINK non-GIPS-compliant returns to their compliant history so long as the FIRMS meet the provision 6.A.10 for non-compliant performance and only compliant returns are presented for periods after 1 January 2006.”

- 6.A.17, 6.B.6

We propose that presentation of both net-of-fees and gross-of-fees annualized SI-IRR be a requirement for closed-end real estate funds similar to the case of private equity investments (Section 7). There is no reason for making a difference in requirements between closed-end real estate funds and private equity funds.

- 6.B.4

The provision 6.B.4 recommends presentation of both gross-of-fees total return and net-of-fees total return. However, as it is a recommendation, there may be cases where a firm presents only gross-of-fees total return and another presents only net-of-fees total return, resulting in incomparable performance presentations among firms.

Accordingly, we propose 6.B.4 be a requirement.

- 7.A.19

The provision 7.A.19 should simply read: “For any performance presented for periods prior to 1 January 2006 that does not comply with the GIPS standards, FIRMS MUST disclose the period of non-compliance.”

In relation to 7.A.19, there should be a new provision which stipulates the linking of non-compliant period to compliant period.

- 7.B.3

7.B.3 is a provision which is coupled with 7.A.21, thus it should be upgraded to a requirement.

- 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”?

Under 8.A.4, it is required to present a “style-defined” composite. Therefore, it is considered that the fundamental issue in 8.A.6 is to present performance calculated based on a certain sponsor’s wrap fee/SMA portfolios extracted from the “style-defined” composite to the sponsor. Thus, such “sponsor-specific” performance information should be presented as supplemental information to the “style-defined” composite.

- 8.A.7

It is unclear what “the disclosure REQUIREMENTS” means. For easier understanding, it should read “the provision 8.A.3”.

Section III. Verification

- **A whole structure of the verification section**

The purpose and characteristics (or framework) of verification should be clearly described.

Since definition, purpose, and characteristics (or framework) of verification are not clearly described, there is a possibility that work level could vary widely by different verifiers. Essentially, once the definition, purpose, and characteristics (or framework) of verification are clearly described, such definition and purpose will naturally define relevant procedures to be taken by verifiers and thus individual elements of procedures will be in conformity with the purpose and characteristics of the verification. However, since such purpose and characteristics are unclear in GIPS verification (III.A.6), some procedures are not sufficiently clear for understanding from the standpoint of the overall structure of verification: e.g. III.A.8 and III.B.2 e and f.

- **Preface of the verification section**

In the beginning of Section III, there is a description “VERIFICATION may also provide ... significant marketing advantages to the FIRM.” However, “marketing advantages” should not be mentioned together with the purpose of verification (increase in confidence and quality and improved internal processes) and thus should be deleted. This is because the inclusion of “marketing advantages” in such preface of Section III might cause misunderstanding about verification. Marketing advantages could be addressed separately from Section III.

The phrase “minimizing the cost to FIRMS” should be deleted because it might cause some misunderstanding that cost minimization could be achieved if a verifier implements and checks the internal control system for the firm.

- **III.A.1**

The specific meaning of “qualified” should be explained in Q & A or Guidance Statements.

- **III.A.6**

The subject of verification should be clearly described. For instance, it would be necessary to explain that in III.A.6 “a” is referring to the period of time, and “b” is referring to a certain point of time.

Reason:

III.A.6.b can be interpreted that it is to opine about the “design” of the firm’s processes and procedures. If so, it would be more suitable to opine at a “certain point of time”.

It should be clarified that “present performance results” does not include “delivery” of “performance results” because it is not possible to verify the “delivery” of “performance results” to clients. For instance, the following provisions should be excluded from the subject of verification: 0.A.11, 0.A.12, 0.A.13, and 3.A.9.

- [III.A.7](#)

The difference between “verifier” and “VERIFICATION firm” should be clearly explained.

- [III.A.8](#)

The sampling should be addressed considering that the purpose of such procedures is to make an opinion on the design of the firm’s processes and procedures, because samples will differ depending whether the opinion is about the design, management (operation) of the designed processes and procedures, or the fact on the results.

- [III.B - preface](#)

“Verifiers MUST follow these procedures, as applicable, prior to issuing a VERIFICATION REPORT to the FIRM.” should read:

“Verifiers MUST have completed the VERIFICATION in accordance with these procedures, as applicable, prior to issuing a VERIFICATION REPORT to the FIRM.”

- [III.B.1.a](#)

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

We do not agree with including provisions [0.A.16](#) and [0.A.17](#) in the subject of verification and propose they be moved to Section I “Introduction” since it is very difficult to verify and assure them.

- [III.B.2](#)

[Fair value valuation](#)

There should be guidance regarding to what extent the procedures should be performed to determine whether the portfolio is valued at fair value (in accordance with the GIPS Valuation Principles in [Appendix D](#)) or not in light of the verification purpose.

[III.B.2.e and f](#)

The purpose of verification is to give an opinion on (1) the firm’s composite construction and (2) design of the firm’s processes and procedures to calculate and present performance results. As procedures for (2) above, [III.B.2.e](#) (performing sufficient testing) and [III.B.2.f](#) are too demanding and not consistent with the purpose of the verification. These two items are rather closer to the performance examination, and we request GIPS EC provide guidance regarding to what extent testing is required.

Also, “testing” should be defined in the Glossary.

In [III.B.2.f.i](#), “all” should be deleted from “to determine the accuracy of all required numerical data”.

Appendix C – GIPS Advertising Guidelines

- **A. Purpose of GIPS Advertising Guidelines**

It should be clarified whether “other information” may include information that is not presented in the compliant presentation and also what difference there is in relation with “additional information” and “supplemental information”.

- **B. Requirements of the GIPS Advertising Guidelines**

B.3

We do not agree with item B.3 requiring the inclusion of the firm’s verification status in the compliance statement for advertising. When the firm would like to include its verification status (i.e. the firm has been independently verified) in an advertisement, the verifier should be informed in advance. When there is an agreement regarding advertisements between the firm and verifier, it should be followed (see note below).

Since verification does not assure the figures in the performance presentation report, providing simple information of whether or not the firm is verified in the advertisement might cause over-expectation and misunderstanding to the recipients of the advertisement who have various levels of understanding with respect to the GIPS standards.

Note:

“Practical Guideline on the GIPS Verification” issued by the Japan Institute of Certified Public Accountants (JICPA) has the following provisions (extracts – translated into English by SAAJ for reference regarding the comments above):

49. “...Whenever verification is referred to in the said advertisement, the verifier is required to confirm that the verifier will not take any responsibility for any loss that might arise to the client as a consequence of its decision to invest based on the advertisement in which the verification is referred to, unless there is a significant fault in the verifier’s determination with respect to the processes and procedures of the verification. In addition, the verifier should receive the information which will be disclosed in the advertisement from the firm in advance and confirm that the disclosure does not include any items which are different from the fact.”

51. “The limitation of the verifier’s responsibility regarding the reference to verification in the firm’s advertisement and the prior presentation of the content of the advertisement to the verifier should be clearly stated in the agreement between the firm and verifier”.

B.4

As “COMPOSITE DESCRIPTION” includes risk information, see comments on provisions 4.A.5, 4.A.20, 4.A.29, and 5.B.3 above.

B.9

See comments on provision 4.A.5.

Appendix D – GIPS Valuation Principles

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

- Superseding laws and regulations and established practices regarding “fair value” valuation in countries/regions

It is said that Appendix D “GIPS Valuation Principles” is drawn from the existing IASB and FASB definitions and guidance relating to “fair value”. Although the consideration of adopting IFRS is now gradually underway in various countries and regions, as for the concept of fair value and portfolio valuation at fair value, relevant industry standards and also established practices, in addition to local laws and regulations, are applied in each country/region.

Therefore, while we would accept recommending use of IFRS, we *do not agree* with making it a requirement and request GIPS EC to clearly state that local standards and established practices are allowed to be used in the process of portfolio valuation at fair value. [Item 2](#) is insufficient because it only refers to applicable laws and regulations.

- [Item 6 and 7 – Valuation requirements](#)

[Item 6 and 7](#) should be a recommendation since there is a possibility that such hierarchy as used in the process of portfolio valuation at fair value may exist in industry standards and established practices in each country/region (see note below). It should also be clearly stated that when there are standards and established practices in a country/region, use of such standards and established practices are allowed.

Note: In relation to required item 7, for instance, a similar hierarchy is provided in rules of the Investment Trust Association in Japan.

- [Item 9 – Valuation recommendations](#)

Since recommended [item 9](#) (description and effect of the change in valuation methodology) is important information for clients, it should be a requirement in Section 4 (disclosure) in the main body of the GIPS standards.

Appendix E – GIPS Glossary

- [Benchmark](#)

We wonder if it is appropriate to define “BENCHMARK” as “rate of return”.

- [Compliant Presentation](#)

“A presentation for a COMPOSITE that contains all information required by the GIPS standards and may also include ADDITIONAL INFORMATION or SUPPLEMENTAL INFORMATION.” should be modified to “A presentation for a COMPOSITE that contains all information and disclosures required by the GIPS standards and may also include ADDITIONAL INFORMATION or SUPPLEMENTAL INFORMATION.”

- Composite Description

Guidance is required for "...includes all key features of the COMPOSITE...and MUST include enough information to allow a PROSPECTIVE CLIENT to understand the key characteristics of the COMPOSITE strategy, including risks."

- Investment Multiple

Although "CAPITAL DISTRIBUTION" is capitalized, there is no definition in the glossary.

- Large Cash Flow

"by an approximate method" should be added to "The level at which the FIRM determines that a client directed EXTERNAL CASH FLOW may distort performance by an approximate method if the PORTFOLIO is not revalued."

- Market Value

Is the definition of "MARKET VALUE" consistent with Appendix D, GIPS Valuation Principles?

- Performance Examination

"A verifier" should be "An independent verifier".

- Prospective Client

<p>Do you agree with the definition of prospective client? If not, how should it be defined?</p>

We do not agree. The part "qualifies to invest in a COMPOSITE (e.g., has assets above the COMPOSITE minimum asset level) and" is not necessary and should be deleted.

Also, inclusion of investment consultants and other third parties in the definition is too broad and should be deleted.

- Recommend/Recommendation

Since it is not clear what "task" actually means, it should be clarified.

- Require/Requirement

Since it is not clear what "task" actually means, it should be clarified.

- Standard Deviation

The definition "a statistical measure of how widely the actual returns were dispersed from the average return" is not consistent with EX-POST "STANDARD DEVIATION" in 4.A.29 because it is used as a measure of volatility: i.e. standard deviation of the change in value of a financial instrument with a specific time horizon.

- Total Return

"TOTAL RETURN" is also used in 5.A.6 for "BENCHMARK", but since the definition here does not fit "BENCHMARK" some adjustment is necessary.

- **Verification**

“Verifier” should be “independent verifier”. What does “A process by which a verifier tests” mean? What does “Also known as GIPS VERIFICATION” mean? (There is no definition of GIPS VERIFICATION.)

- **Verification Report**

“Verifier” should be “independent verifier”.

The expression “as of a specified period or date” is not appropriate, since there is no explanation regarding the difference between the ICAEW/JICPA standards (opinion is for a specified period) and AICPA standards (opinion is as of a certain point of time). Such difference itself is a big issue.

- **Wrap Fee**

In Section 8, “wrap fees” means a product based on certain business model, not a type of bundled fee. We wonder if the definition might cause confusion.