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BY E-MAIL

CFA Institute
Centre for Financial Market Integrity
Reference: Global Investment Performance Standards
PO Box 3668
Charlottesville
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Dear Sirs

Exposure Draft of the 2010 Global Investment Performance Standards

Thank you for your invitation to comment on the revised standards.

Broadly, we agree with the many of the changes that are being proposed and the additional clarity that many of the revisions bring to the standards, although there are 3 areas of disappointment / disagreement that warrant specific highlighting. These are:

- **Risk Disclosure** – this was the area where guidance was eagerly anticipated (as Performance and the associated Risk should be fundamental to any asset manager choice). Unfortunately the changes are quite disappointing as they are almost trivial and without examples or guidance statements leave the standards significantly lacking in an area that this of significant importance to our clients (the asset sponsors).
- **Verification** – although unsurprisingly (although disappointingly) we have seen the removal of the promised mandatory verification, we have also seen the significant dilution of the language used in recommending the value of being independently verified. We disagree with this strongly, as we feel that this goes against the core intentions of the initial standards and although a verification cannot “guarantee” compliance, it does give clients additional confidence that the information can be relied upon – if there has been a problem in the past, the issue is not with the concept of verification, but the quality of the verifier (which is separated within the standards – and as you will see from our detail comments, this should be elaborated upon).
- **Bringing Fair Value methodology into the Performance Standards** – although we appreciate why this has been included, we recommend that this is moved to a recommendation (if not removed). Fundamentally, these are performance standards rather than valuation standards. Clearly any performance measure relies on valuations, these are often calculated based on local country requirements/restrictions and bringing this in as a requirement does not appreciate the complex and diverse spreads of accounting practices globally. Although the accounting profession is trying to move to greater global homogeneity, this should be led by them (and supported by us) rather than us

trying to also incorporate into our own definitions etc. With this in mind, we suggest using Fair Values should be moved to a recommendation (and include disclosures if not etc) and then give guidance to problems that might be encountered if not used.

We have also attached an appendix of detailed comments on specific paragraphs within the Draft and ask for these to be considered within the subsequent debate.

I hope that these comments are of use, and again thank the CFA for all the hard work that has clearly gone into the preparation of this Exposure Draft.

Yours sincerely

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Appendix - Comments on 2010 GIPS

0.A.7 Claim of Compliance

This looks fine, and the guidance of 24 months for a verification to remain “current” seems appropriate, although would recommend better definition on when the 24 months starts (we assume the end date of the last performance period verified, rather than the last signed verification statement).

0.B.2 Providing compliant presentations to existing clients where their portfolio is included

This feels overly onerous, providing clients with even more information than they probably want. We would recommend that on an annual basis, it is recommended that the client is informed which composites their portfolios are included within and they can request further details rather than FIRMs pushing the information out.

1.A Fair Values v Market Values

These are performance standards rather than valuation standards, therefore how assets are valued should be up to local regulation etc, rather than the performance standards.

Clearly the performance calculation must be appropriate for the method of valuation used and the answer is completely dependent upon the valuation, although if the performance standards start to use a different valuation method to the way that clients assets are reported, then we will be creating further confusion - whereas the whole objective of GIPS is to provide clarity and transparency.

We imagine many of the accounting firms will be commenting on this, and cede to their expertise, although we would trust that we should be supporting global consistency (whatever that ends up being) rather than trying to define it.

1.B.1 “Qualified” independent external 3rd party

What constitutes qualified? – without definition, we would suggest this is removed and a guidance statement added for the types of questions that should be asked of your 3rd party.

3.A.9 Not presenting a composite to a prospective client known to have a portfolio less than the minimum asset level

We do not feel that making this a requirement is appropriate as it seems overly dogmatic and we suggest that this just remains as a recommendation. Often clients come to asset managers with a proposal where the strategy is likely to grow over time – otherwise, when dealing with consultants, sometimes the client or the asset size is not known.

As the minimum asset level must be included within the presentation, the client/consultant must be responsible for making sure its applicability, as they will always have a better idea as to how this portfolio might change over time.

4.A.5 Disclosure of leverage etc “sufficient to identify risks”

Agree with the importance of disclosure of these types of instrument, although do not agree with the last 4 words “sufficient to identify risks”. We agree that as part of the compliant presentation, you should disclose that you have used these instruments/methods, although it would be in following discussions you would discuss to what extent (both the latitude you have had and the latitude that you have used in the past), rather than put it all in the initial disclosure.

The term “sufficient to identify risks” is also just too woolly (or unspecific) and is open to misinterpretation, as every client/asset manager could interpret it differently. If we are going to have a rule like this, then it needs to be clear cut so people can apply it, rather than have to interpret it to different situations.

We can see short positions (if material) have now been added. Although we agree with this, how will this be introduced? - Is it retrospective? – if so for how long?, as it would seem unfair on people who have been compliant for some time to go back through their records again, especially if they also have to make a call on its materiality.

4.A.19 Disclosure of significant events to interpret the performance record

This is too unspecific and open to interpretation. We either need to know what these “significant events” are (as it is a requirement rather than a recommendation), or it should be removed.

4.A.28 Disclosure of errors for 12 months

This appears over the top, and should already be covered in a firm’s error policy. Once an error is corrected, we do not see why new Prospective Clients need to be told that previously the figures had been wrong (unless we want managers to trawl around in “sackcloth and ashes” for a period of time, which we feel is unhelpful).

Clearly when an error is made, existing clients and prospects have to have their historic information corrected (the process being within their error policy) - that should then be the end of it. If the error was material, typically the manager will have tightened up their procedures to avoid any reoccurrence (making it irrelevant to “brand new” prospective clients).

If we make this area too dogmatic, a potential result is managers make their error policies so wide that they never commit a “material” error, which is not in the spirit of GIPS.

4.A.29 3 year Standard Deviation

We have waited many years for some proper risk guidance, and this is all we get. To me, a single figure is irrelevant and needs to be put into context.

We suggest (as a minimum) that a rolling 3 year risk figure for both the composite and benchmark is presented along with the performance for the whole period the performance is presented. At least this gives the reader an impression of its (achieved) volatility against some comparator and also how this relationship might have changed over time.

4.B.2 Key assumptions underlying valuations

The term “key” concerns me, as it is not specific enough to add any value, although could leave the client with an impression that this was all they needed to know. If we are going to make statements about valuations then it should be specific or refer to a valuation policy that is available.

5.A.8 Disclosure of proportion of Proprietary Assets

Yes, we agree that the proportion of these within a composite should be disclosed.

III – Verification

We feel the “dumbing down” of the importance of verification is disappointing. Using words like “intended”, “helps to” etc implies that even if an asset manager is verified, the client does not have any additional confidence to one that just claims compliance – we do not believe that this should be the case.

We think the changes to the first paragraph are significantly detrimental and should be changed to something like the following:

“The primary purpose of VERIFICATION is to give both the FIRM and its existing and PROSPECTIVE CLIENTS added confidence in the FIRM’s claim of compliance. This is done by having an independent third-party reviewing the key areas that the presentation relies upon. VERIFICATION gives added assurance to (and often increases) the consistency and quality of the FIRM’s COMPLIANT PRESENTATIONS and also ensures documentation of key internal processes and procedures that the presentation relies upon.”

A.1 Qualified independent third-party

What is “qualified” and independent? – This is important and should be elaborated upon as it is fundamental to the value of the verification. For example there should be some explanation of: appropriate qualifications, levels of experience appropriate for company being verified, level of separation from company being verified etc.

A.4 “helps to bring credibility”

This is very weak, and either we are supporting verification as a good thing (which we think the standards should) or not. As such, then we should say that “VERIFICATION brings additional, independent credibility to the claim of complianceetc”

A.7 Verifiers relying upon other verifiers work

Although we understand the intention, this is quite confusing and also unclear as to how this might work. Using terms like “using professional scepticism” is not specific enough – maybe a guidance note is necessary to give better examples where issues coming up in a current verification might highlight concerns over previous periods.

B.1.e Knowledge of Valuation Basis and Performance Calculations

Shouldn’t this paragraph also include that the verifier agrees that these policies are consistent with the Standards (or just agree that they are appropriate).

B.2.f “VERIFICATION does not *provide assurance that the*”

It provides more assurance than not being verified!

We think this should be change to “VERIFICATION does *not guarantee* that the”.

C. GIPS PERFORMANCE EXAMINATION

We are concerned that this is/could be confusing, and still could be confused with a GIPS VERIFICATION. In my opinion, a GIPS PERORMANCE EXAMINATION should only be offered if a FIRMS claim of compliance has been VERIFIED.

General Comments

The inclusion of terms like “sufficient” (e.g. 4.A.5), “significant” (e.g. 4.A.19), “key” (e.g. 4.B.2), especially for REQUIREMENTS concerns me, as the whole principle of GIPS is to give clients clear and consistent information. By using imprecise terms that leave areas for interpretation means that clients could start receiving inconsistent information and also FIRMS could leave themselves open to litigation by leaving out things by accident that were not deemed significant at the time, although with perfect hindsight became significant over time.