

USIPC's response to GIPS Executive Committee's (EC) invitation to comment on proposed GIPS 2010 Exposure Draft (Appendix D):

12 May 2009

GIPS Executive Committee
c/o CFA Institute Centre for Financial Market Integrity
Global Investment Performance Standards
560 Ray C. Hunt Drive
Charlottesville, VA 22903

Re: GIPS2010 Exposure Draft – Comments on Appendix D

Dear GIPS Executive Committee:

On behalf of the United States Investment Performance Committee (USIPC), I am pleased to attach our comments concerning GIPS Valuation Principles in Appendix D. The USIPC has followed the same process as detailed in our initial response of April 7th 2009 in generating these comments.

As ever, we thank you for giving us the opportunity to comment on this work and look forward to the publication of the final document.

On behalf of USIPC

A handwritten signature in black ink that reads "Iain McAra". The signature is written in a cursive, flowing style.

Iain McAra
Chairman, USIPC

Structure of Appendix D

Repetition of the text of existing standards that have distinct provisional numbers should be avoided as it causes confusion (for example, provision 1.A.2 is reproduced as Appendix D #1 and 4.A.17 is reproduced as Appendix D #5). Rather, existing provisions that relate to valuations should appear in a separate section, consistent with the structure of the guidance statement (i.e. Key GIPS provisions applicable to Valuation). Only additional information should be assigned an Appendix D number. The Committee recommends dividing Appendix D into requirements and recommendations sections using the A and B nomenclature, consistent with other sections of GIPS 2010.

Fair Value Concept

The process of *Fair Value Pricing*, a practice that eliminates using stale prices and therefore mutual fund timing or arbitrage, while clearly employing the same concepts as fair value measurement represented in FASB 157 (management using inputs and models beyond those relating to the prices generated at close of business in the non-domestic markets in which the mutual fund operates) is, certainly initially, going to be confused with *Fair Value Measurement* or *FAIR VALUE* as presented in GIPS 2010, FASB 157 and International Financial Reporting Standards (IFRSs) on fair value measurement. We would recommend that an acknowledgement of the similarly named processes be included as a preamble to the initial mention in GIPS 2010 of *Fair Value Measurement* or *Fair Value* so that any confusion is eliminated.

In assigning a fair value to an asset, the size of the holding and the time frame required to complete the trade are key factors that are considered; whilst acknowledging that a fair value measurement assumes an orderly transaction between market participants, where an orderly transaction involves market participants that are willing to transact and allows for adequate exposure to the market. The committee would wish for specific reference to these factors as they relate to Investment Management.

Local Laws & Regulations

The Committee ideally would recommend deleting Appendix D #6, #7 and #8, along with expanding Appendix D#2 such that those wishing to claim compliance with GIPS 2010 MUST align themselves completely and without deviation from their local laws and regulations when measuring fair value. In the absence of these or local accounting standards, the IASB (IFRS) fair value measurement SHOULD be applied. The Committee debated between MUST versus SHOULD concerning IASB and recommends SHOULD, acknowledging that all policies and procedures regarding fair value measurement MUST be documented and available upon request. A MUST for those where no local laws, regulations or standards exist may prove to be too high a hurdle.

The Committee strongly believes that including items in GIPS 2010 that deviate from SFAS 157 would produce conflicting statements, multiple prices for a single security, confusion in both existing and prospective clients and, in some cases, an additional administrative hurdle that could cause firms to be unable to comply with GIPS 2010. Additionally, if GIPS 2010 is unable to adopt valuation standards without deviations, any changes to those standards would require, at least, consideration in GIPS and, at worst, revision of GIPS to reflect those changes. Monitoring and providing timely updates would be

demanding.

The USIPC acknowledges that its knowledge of local laws, regulations or valuation standards beyond the United States is limited and would anticipate expertise within the other Country Sponsors to validate or contradict the proposed approach.

Terminology

There are three terms that the Committee recommends inclusion in the Glossary: 1) DISCLOSE, 2) DOCUMENT and 3) QUALIFIED. The Committee presumes that the term “disclose” refers specifically to a disclosure to be included on all compliant presentations, but seeks clarification. The Committee assumes that “document” means items included in the firm’s policies and procedures but seeks confirmation. The committee seeks clarification on the definition of the word QUALIFIED.

Appendix D # Items

	USIPC Position	Comments
Introduction	Expand and clarify	As discussed above.
#1	Agree	Do not label as #1 Refer only to 1.A.2
#2	Agree (with revision)	Revise into 2 distinct line items: # 2a When establishing FAIR VALUE, FIRMS MUST comply with all applicable laws and regulations. # 2b In the absence of applicable local laws, regulations or valuation standards, IASB (IFRSs) SHOULD be applied
#3	Agree	Do not label as #3 Refer as 4.A.9
#4	Agree but eliminate and expand 0.A.6	Expand 0.A.6 to specifically address the documentation requirements relating to valuation rather than #4
#5	Agree	Do not label as #5 Refer only to 4.A.17
#6	Disagree (Eliminate)	Ability of Management to exercise judgment even if an observable price is available (how would the price be determined as appropriate?), as detailed under SFAS 157, must be preserved.
#7	Disagree (Eliminate)	#7 is more restrictive than SFAS 157 and subsequent guidance 2008-234. For reasons described above and expansion of 0.A.16 (#2), we recommend acceptance of local laws, regulations, valuation standards, and, in their absence IFRSs fair value measurement guidance.

#8	Disagree (Eliminate)	Eliminate along with #6 and #7 given the expansion of 0.A.16 (#2) and existence of 4.A.17
#9	Agree (with clarification)	The Committee asks for clarification as to whether a 'material change in the valuation' refers to a security, portfolio or Composite. Is the disclosure to be included on those relevant compliant presentations or included in the policies and procedures? A material change would have to be included in the firm's policies and procedures (0.A.16) particularly if the provision is expanded as described in comments on #4. Would that make this numbered item unnecessary? Clarify by putting in the recommendations section.
#10	Agree	Do not label as #10 Refer only to 4.B.2 Clarify by putting in the recommendations section.
#11	Agree (with amendment)	Revise to read 'FAIR VALUE, or fair value inputs to a model SHOULD be obtained from an independent, external source.' QUALIFIED requires definition and inclusion in the Glossary if it is to be included in #11
#12 - #22	Defer	<p>The Committee defers to submissions from the Real Estate industry. A number of USIPC members additionally are represented through the REIS. General comments relating to Real Estate:</p> <p>Agree with #12. Market pressures should be the drive towards more frequent external valuations rather than a set of requirements. External measurement is not necessarily more consistent, either across time or across measurers. Widely divergent views on how 'fair value' is determined. More frequent external appraisal does not necessarily add accuracy. Move towards external valuation every 12 months at best should remain a recommendation.</p> <p>The Committee questioned the three year rotation of external appraisers recommended in #20. The provision presumes the annual appraisal process is in place and we question the continuity of approach and therefore consistency of the long-term data, inherent given real-estate tends to be a long-term investment, if a three year rotation occurs.</p>
#23 - #28	Defer	The Committee defers to the submissions from the Private Equity industry.