

USIPC's response to GIPS Executive Committee's (EC) invitation to comment on proposed GIPS 2010 Exposure Draft (Sections 3, 4, & 5):

15 June 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 Sections 3, 4 & 5

Dear GIPS Executive Committee:

On behalf of the United States Investment Performance Committee (USIPC), I am pleased to attach our comments on Composite Construction, Disclosures, and Presentations and Reporting relating to GIPS2010. The USIPC has followed the same process as detailed in our initial response of April 7th 2009 in generating these comments. The Committee is in the process of reviewing Glossary of Terms, Wrap Fee / SMA, Verification and Advertising and will provide our comments by the June 30, 2009 deadline.

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

SECTION 3: COMPOSITE CONSTRUCTION

Provisions	USIPC	Comments
3.A.1	Agree	The Committee concurs with the inclusion of all actual discretionary portfolios in the composite and that the distinction between fee-paying and non-fee paying portfolios be removed. Members ask that clarification be given on the generation of net-of-fee returns for composites that include non-fee-paying portfolios.
3.A.2	Agree (w/ Amendment)	Members suggest addition of only to the provision: "COMPOSITES MUST include all and only those PORTFOLIOS that meet the COMPOSITE DEFINITION" so as to draw attention to the implied exclusion of portfolio that do NOT meet the requirement. Members recommend the deletion of "full" since the detailed criteria of composite definition is specified in the glossary in Appendix E.
3.A.3	Agree (w/ Amendment)	The Committee proposes that the language be changed to: "COMPOSITE MUST include new PORTFOLIOS on a timely and consistent basis as described in the FIRM's policies and procedures." The phrase "after the PORTFOLIO comes under management" does not allow for the variations that are allowed with inclusion without adding the proposed reference to the policies and procedure.
3.A.4	Agree	No change in content.
3.A.5	Agree	No change in content.
Old 3.A.6	Agree	Members accept the deletion of the old provision that requires convertible and other hybrid securities be treated consistently across time and within composite but ask for more background information on the deletion.
New 3.A.6	Agree	The Committee recommends that the word "actually" be removed.

Deleted: '
Deleted: '

3.A.7	Agree (w/ Amendment)	Members suggest that the sentences be split into two separate provisions. Both are important but each addresses a unique issue that is unrelated (one on asset & one on linking). Members are pleased with the addition of LINKING in the glossary. Members further suggest that the word "defined" be deleted to be consistent with the usage of "FIRM" throughout the Standards. "FIRM" already refers to a defined entity for compliance with the GIPS standards.
3.A.8	Agree (w/ Amendment)	The Committee recommends the rewording of the provision such that the policies and procedures that the FIRM has in place around minimum asset level applied to a composite are referenced in the provision: " For those COMPOSITES where the FIRM has a documented policy for the minimum asset level that portfolios must hold to be included in the Composite, FIRMS MUST NOT include... "
3.A.9	Agree (w/ Amendment)	AGREE with moving from a recommendation to a requirement but ONLY with significant amendment. The committee strongly feels that " known to have a portfolio with assets " be replaced with " where the prospective client indicates that the portfolio is less... "
3.A.10	Agree	No comment.
Old 3.B.1	Agree	No comment.
3.B.1	Eliminate Provision	Members strongly feel that the preference shown to the temporary account concept is misplaced given the lack of use and the potential for error when being used. The Committee requests that this recommendation be eliminated
Old 3.B.3	Agree	Upgraded to requirement. Please see comment in 3.A.9.

Deleted: '

Deleted: '

Deleted: '

Deleted: '

Deleted: '

Deleted: '

SECTION 4 DISCLOSURE

Provisions	USIPC	Comments
General Comment		<p>Concerning “removal of certain disclosures after a period of time” the Committee believes that a reference to removal of disclosures should exist in the Standards, even if it is determined that a disclosure can never be removed, as it is a frequently raised question. Regarding “the period of time” the Committee believes that if a disclosure relates to a period or date for which data is being presented, the disclosure must be presented/remain. Therefore, depending on the choice the manager makes regarding the amount of historical data being presented, at a minimum, a newly relevant disclosure would remain on the presentation for 10 years.</p> <p>The Committee believes that certain “disclosures” such as Composite name changes, previous fee schedules, which do not enhance the prospect’s understanding of the data or strategy, should be retained for a period no less than 12 and no more than 36 months. The Committee agreed that retaining too many non-essential disclosures could distract from rather than enhance the presentation.</p> <p>The Committee expressed the opinion that any RECOMMENDED disclosures could be removed at will.</p>
4.A.1	Agree	No change in content.
4.A.2	Agree	No change in content.
4.A.3	Agree	No change in content.
4.A.4	Agree	No change in content.
4.A.5	Agree (w/ Amendment)	<p>Members agreed with the inclusion of short positions to the disclosure but recommends the provision be revised to read: FIRMS MUST disclose the presence, use and extent of leverage, derivatives and / or short positions, if material, including a description of the frequency of use and how the use has changed over time, and characteristics of the instruments sufficient to identify risks in the strategy</p>

Deleted: '
 Deleted: '
 Deleted: ,
 Deleted: '
 Deleted: '

Deleted: '
 Deleted: '

		associated with their use.
4.A.6	Agree	No change in content.
4.A.7	Agree	
4.A.8	Agree (w/ Amendment)	<p>Members unanimously advocate for the deletion of "of valuation sources" in the provision for a number of reasons:</p> <p>a) the composite may comprise of portfolios of different client types that are accounted, valued and measured on different systems with the potential for each system to have its own set of valuation sources; b) Valuations struck at different times throughout the last day of a month can occur with Funds differently domiciled versus in-house portfolios; c) Determination of the benchmark valuation sources through time, particularly for the less main-stream benchmarks that are used and those benchmarks that are combinations of other indices, could be impossible. The collective impact of these differences at the portfolio level can already be seen in the dispersion measure already provided in the compliant presentation. Members agree with the replacement of "inconsistencies" with "material differences".</p>
4.A.9	Agree	Additional guidance on what constitute significant event is needed by providing an additional list of examples of operational and/or investment process that impact performance.
4.A.10	Agree	Members agree as long as there is disclosure that details of non-compliance are available upon request (which could be added to 4.A.17).
4.A.11	Agree	

Deleted: '
Deleted: '

4.A.12	Disagree	The relevant fee schedule appropriate to the particular client to whom the composite is presented should be disclosed. As such, the Committee disagrees with the change from "presentation" to "COMPLIANT PRESENTATION" and asks that the provision be amended to read: FIRMS MUST disclose the FEE SCHEDULE appropriate to the PROSPECTIVE CLIENT. This is consistent with the discussion section in the handbook.
4.A.13	Agree	No change in content.
4.A.14	Agree	No change in content.
4.A.15	Agree	No change in content.
4.A.16	Agree (w/ Amendment)	The Committee has the following comments on each of the sub-bullet points: a) Agree. No change in content; b) Agree with the concept but strongly suggest that this be rewritten as: If the applicable maximum, tiered based on the fee schedule or actual investment management fees have been used; c) Propose wording to: if PERFORMANCE BASED FEES would apply or if returns are net of PERFORMANCE BASED FEES, how the fee is applied. Performance based fees can have annual true-ups or a lead time before the performance fee is applied or becomes applicable, which can often be more than 12 months and accruals for performance fees are not always applied.
4.A.17	Agree	Members recommend replacing “preparing” with “maintaining” and ask for further clarification on “reporting”
4.A.18	Agree	Propose the disclosure remains until the period to which the disclosure refers has rolled off the compliant presentation.
4.A.19	Agree	The Committee suggests that SIGNIFICANT EVENT be added to the glossary and additional guidance be provided (applications in current handbook suggest ownership or personnel changes). The Committee requests clarification and examples of operational and/or investment processes to be considered.

- Deleted: '
- Deleted: '
- Deleted: '
- Deleted: '
- Deleted: '
- Deleted: '

4.A.20	Agree (w/ Condition)	Members agree with requiring the disclosure of key characteristics and risks in the composite description but ONLY if <i>sufficient</i> guidance is provided. This expanded view of what constitutes a composite description is too broad. The proposed provision makes the description more inclusive and blurs the distinction to that of definition. The Committee asks for clarification of the terms composite definition and composite description.
4.A.21	Agree	The Committee does not feel the word "nature" is understandable and suggest the word choice of "description" instead.
4.A.22	Agree	Similar to 4.A.21, edit to the language.
4.A.23	Agree	Members strongly feel that this requirement should only remain for 3 years (the exception to the general comment above).
4.A.24	Agree	No change in content.
4.A.25	Agree	No change in content.
4.A.26	Agree	No change in content.
4.A.27	Agree	Correct minor grammatical error by removing the comma before the word "and".
4.A.28	Eliminate Provision	By a majority vote, the Committee proposes elimination of this provision. Presuming that the FIRM is following their error correction policy, the firm would be communicating all material error corrections to existing clients and any prospective client that the firm believes relied upon the incorrect information. The Committee does not see any benefit in providing details of previously corrected errors to new prospective clients and believes that including this provision may cause firm to set a higher threshold of materiality to circumvent this provision.
4.A.29	Agree (with Amendment)	The Committee agrees with the required 3 year standard deviation as a reasonable starting point for a measure of risk and recognizes that firm may disclose other measures the FIRM considers appropriate to the strategy. The Committee suggests that the measure be shown for all annual periods

		<p>presented subsequent to and including 12/2011 rather than only the “most recent annual period presented.”</p> <p>The committee noted that a pre-GIPS 2010 compliant entity that solely has been following the requirements of GIPS effective 1/1/2006, and not certain, additional recommendations will NOT be able to comply with 4.A.29 as proposed (monthly composite returns for three years ending 12/2011). At a minimum, the previously valid 2009 composite construction will need to be rerun with the frequency being increased from quarterly to monthly in order to comply with proposed provision 4.A.29, and the committee suggests that a reference to that fact is warranted.</p>
4.B.1	Agree	
Old 4.B.2	Agree with the deletion	The Committee acknowledges the inclusion of this provision in the proposed Appendix D #4 and #9.
4.B.2	Agree	The Committee is comfortable with the recommendation to disclosure key assumptions in valuation and notes its repetition as proposed in Appendix D #10.
Old 4.B.3	Agree with the deletion	The content in the deleted provision is now covered in the claim of compliance statement 0.A.7.
4.B.3	Agree (with Amendment)	The Committee believes that the disclosure of “material differences between the BENCHMARK and COMPOSITE strategy” will force the FIRM to reveal the proprietary mechanism of alpha production for that strategy. The Committee therefore recommends the disclosure be of material difference between the benchmark and the composite <i>universe</i> rather than composite strategy, believing this captures the intent of the provision.

SECTION 5 PRESENTATION & REPORTING

Provisions	USIPC	Comments
5.A.1	Agree	The Committee assumes that the term “annual” refers to “calendar annual year” and is in agreement with sub-bullets

	(with Amendment)	a), b) with the amendment that this provision be extended to all partial years, whether initial year; formed by a break in the composite track record (0 portfolios for some length of time) or an incomplete final year, c) & d).
5.A.2	Agree	The Committee agrees with and welcomes the definition of LINK in the glossary but asks that the explanatory language (the deleted for example clause) be included in the handbook.
5.A.3	Agree	
5.A.4	Agree (with Amendment)	<p>The Committee strongly suggests a) be revised to read: "Performance track records of a past firm or affiliation MUST and can only be LINKED to or used to represent the historical record of a new <i>or acquiring</i> FIRM...."</p> <p>In paragraph 5.A.4 a), given that "Performance track records of a past FIRM..." was replaced by "Performance track records of a past firm...", distinguishing the original provision's compliant firm from the proposed provision's non-compliant firm, the Committee wanted clarification on the proposed addition of the words "on a COMPOSITE-specific basis" and to whom the COMPOSITE(s) belonged, as the firm could not have COMPOSITES, being non-compliant.</p> <p>The Committee requests that the GIPS EC revisit the paper "Issues on Portability" that the USIPC submitted previously as a number of issues relating to the acquisition of non-compliant firms are raised in the paper that could be clarified.</p>
5.A.5	Agree	The Committee feels it is appropriate to disclose the percentage of composite assets that is composed of carve-outs until such time the data ceases to be included in the compliant presentation. The Committee does not agree with discontinuing the disclosure for periods after 1 January 2011.
5.A.6	Agree (with Amendment)	<p>Similar to 4.A.21, the Committee suggests the word choice of "description" in lieu of "nature" in 5.A.6 b).</p> <p>The committee recommends revising 5.A.6 c) to read: If a custom BENCHMARK is used, FIRMS MUST disclose the BENCHMARK components, weighting and re-balancing</p>

		process.
5.A.7	Agree	
5.A.8	Eliminate Provision (as written)	<p>The Committee unanimously agreed with the elimination of this proposed provision as written. While the intent is appreciated, reference to “proprietary assets“, presuming this means any and all proprietary assets including those invested as participants in funds, in-house pension assets, general partner funds, fee-paying as well as non fee-paying, and proprietary assets as proposed in the definition in the GIPS glossary, is too broad and would present a huge administrative overhead, given that COMPOSITES are tracked on a portfolio level, not at asset level.</p> <p>The Committee would suggest that every reference to PROPRIETARY ASSETS be changed to read PROPRIETARY PORTFOLIOS. Assets within a pooled vehicle, whether they are or are not proprietary are all treated equivalently, therefore distinguishing between proprietary and non-proprietary assets within a fund or portfolio adds no value. We believe revising “assets” to “portfolios” would support the intent of the proposal while being administratively realistic, and would not detract from the prospective client’s understanding of the ownership of the components within the COMPOSITE.</p>
5.B.1	Agree	
5.B.2	Agree	Eliminations of old 5.B.2 a), d) & g), change to 5.B.2 c) and addition of 5.B.2 d) agreed.
5.B.3	Agree	The Committee presumes the examples of relevant risk measures removed from the provision will be included in the handbook or risk guidance statement.
5.B.4	Agree	
5.B.5	DISAGREES (as written)	The Committee agrees that the provision should encourage presentation of data of periods greater than 10 years but notes strongly that this provision allows for cherry-picking of those periods greater than 10 years that are only beneficial.

		<p>In addition it is not clear whether the adoption of the provision would apply on a per COMPOSITE basis or would have to be adopted on a FIRM-wide basis.</p> <p>For instance i) all composites will present up to 15 years of annual performance where available OR ii) those COMPOSITES that are selected will present up to 15 years of annual performance where available OR iii) any composite should present greater than 10 years of annual performance.</p> <p>An alternative approach is that the provision should state that COMPOSITES should present annual performance since inception; this would ensure no cherry-picking of the favorable annual periods, and it would need to declare whether that is applicable on a per composite level or on a FIRM level.</p>
5.B.6	Agree	The Committee is comfortable with updating compliant presentations on the quarterly basis as a recommendation.
5.B.7	Agree	