WADDELL & REED Financial Services

GIPS® 2010 Comments for the CFA Institute

Proposed Changes - Disagree

Section 0.B.2 Recommendation to provide a compliant presentation to current clients on an annual basis

Naturally, if a client asks for a presentation they should receive one; however, we disagree that a recommendation should be added to provide a compliant presentation to current clients on an annual basis. What is the benefit of doing this? It will raise questions with current clients and cause a large amount of needless work – both for those who deal one-on-one with clients in addition to those who send the presentations. We feel the compliant presentation distribution should apply to prospective clients only.

Section 3.A.9 Recommendation 3.B.3 removed (firms should not market a composite to a prospective client who has assets less than the composite's minimum asset level) and replaced with Requirement 3.A.9 (firms must not present a composite to a prospective client known to have a portfolio with assets less than the composite's minimum asset level).

First of all, this is not just a change from a recommendation to a requirement. It changes the wording of "market a composite" to "present a composite". While it is understood and accepted that a firm should not actively "market" to a prospect known to have assets lower than the composite minimum, what is wrong with showing a composite presentation to a prospect known to have assets lower than the composite minimum? If a client asks to be shown the composite presentation, they should be shown the presentation AND explained re: the minimum. In addition, many times it is not known what a client's total assets are. The recommendation should be left as is – no change to the wording and no change from a recommendation to a requirement.

Section 4.A.20 Requirement that Firms must disclose sufficient information to allow a prospective client to understand the key characteristics of the composite strategy, including risks.

We are not in favor of the addition of this disclosure due the vagueness and subjectivity associated with risk characteristics. If this requirement is kept in the standards, please provide guidance re: how definitive you feel the risk characteristics should be. For example, should the risk characteristics be more definitive than in the hypothetical large cap equity strategy description below?

(The composite strategy invests in large cap equity securities that the portfolio manager feels are undervalued in the market… Investing in large cap value equities involves the risk of security devaluation.)

Section 4.A.28 Requirement that Firms must disclose, for a minimum of 12 months, any change to the compliant presentation due to a correction of a material error.

We oppose the addition of this requirement for two reasons: 1) it was a requirement introduced into the Error Correction Guidance Statement without any public comment opportunity. It is contrary to the spirit of the standards to introduce a requirement without an opportunity to comment by those who are the end users of the standards. 2) We do not see the benefit of alerting future prospects that an error was made and has been corrected. If those that need to know of the error have been alerted, why keep the "error alert" on the presentation?

Section 4.A.29 Requirement that Firms disclose the 3-year annualized ex-post standard deviation for the composite and benchmark.

Please provide guidance on the periodicity to use in the calculation (monthly or quarterly returns). Also, why is standard deviation required rather than the option to choose a risk measure that the portfolio managers feel is more meaningful? Volatility can be so subjective and may create confusion. We feel this requirement should be changed to a recommendation.

<u>Section 5.A.8</u> Requirement that if a composite contains proprietary assets, firms must disclose for periods on or after 1 January 2011 the percentage of the composite assets represented by the proprietary assets.

The money represented by “propriety assets” is just as real as the money represented by “client assets”. If proprietary assets are managed the same as the client assets, and they should be if they’re in the composite, then why does it matter whether or not composite assets are composed of proprietary funds? We oppose the requirement to disclose the percentage of assets represented by proprietary funds/assets.

Proposed Changes – Agree

Section 0.A.7 GIPS Compliance Statement – disclose verification status

Rather than requiring that firms claiming compliance with the standards become verified, this disclosure of verification status is a good alternative. Clients are alerted to the verification status and can make decisions re: their need for advisors to be verified. In addition, this statement continues to push for the industry best practice hoped for with verification.

Section 5.A.1 Presentation of Composite's initial stub period performance

The initial stub period of performance is relevant to the performance history of the composite and should be presented. Some firms present and some don't. We feel it's a helpful addition requires all firms to present the initial performance stub period.

It should also be required to present composite returns through the final date of the composite, thereby including any final stub period for the composite.

Advertising Guidelines #5 Composite Performance Results

We really like the change to include period to date performance results or performance results through the most recent period end. When the requirement was to include returns through the same period end as in the compliant presentation those returns became obsolete as the year progressed. It makes sense to have a requirement to provide useful information rather than just provide information. Good move!