

European Investment Performance Commission
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INVESTMENT PERFORMANCE COUNCIL (IPC)

Guidelines in Respect of the Impact of Euro Conversion

Preamble

The guidelines below refer only to the "in" currencies and will in due course extend to other currencies, if/when they convert to Euro.

These guidelines should be observed by all persons responsible for managing investment funds, whether segregated client funds or mutual funds (e.g., UCITS, SICAVs, unit trusts, OEICs and similar pooled investment or savings products) or providers of performance measurement services or indices.

Continuity of investment performance can be achieved for clients and funds within any domestic markets, but it is more difficult to prepare acceptable historical data for cross-border marketing. Two worked examples are attached in appendix, which should help to clarify the issues.

The Euro exists as an actual currency since 1 January 1999. At that time, eleven currencies and the ECU converted to the Euro (see worked example A). Other currencies are expected to convert to the Euro in the future (see worked examples A and B). For each currency, ECD (Euro Conversion Date) will designate the date of the conversion to the Euro, which may be 1 January 1999 or later.

Overriding Principles

1. For an individual client, the conversion to Euro should not have any effect on historical performance data or accounting information. The historical facts for that client have not changed.
2. The Euro does not exist as an actual currency until 1 January 1999. Therefore it is impossible to create any valid historical information in Euro, whether of funds, individual securities, indices or exchange rates.
3. Historical performances which were validly comparable before ECD should remain comparable afterwards. Such comparisons should preserve rank ordering among fund returns.
4. Fund performances which were not validly comparable before ECD cannot become retrospectively comparable by virtue of the creation of / conversion to the Euro.

Presentation of Historical Data

5. For a number of purposes (not restricted to performance measurement) it will be desirable to present time series which cover periods before and after ECD. The data after ECD may be presented in Euro but a major issue is how to present the data prior to ECD. In all cases, the presentations must show the original currency of the historical data.
6. Total return data for periods prior to ECD can be geometrically linked with post-ECD returns, but the original currency of the historical data must be disclosed. Although time series of total returns in different member currencies may converge prior to ECD, the individual histories must be kept separate, in accordance with overriding principle number 4.
7. Nominal amounts such as price, value, net asset value, dividends or earnings pose a particular difficulty. For convenience, it is likely that an individual client will wish to see historical values converted to Euro at the fixed conversion rate for his individual local currency. Otherwise any time series would have a discontinuity at ECD. However, due to overriding principle number 2, the history so converted must not be described as being in Euro. The correct form of words would be:

"French Francs (or Greek Drachma) converted to Euro at the fixed conversion rate"

or use the International Organisation for Standardisation (ISO) endorsed currency abbreviations, eg:

<<FRF(EUR)>>, or <<GRD (EUR)>>

8. Computer systems used for investment accounting and/or performance measurement may store the historical data in whichever way is practical for the particular application. However, it will always be necessary to keep track of the original currency of any data, even if it is converted at the ECD Euro conversion rate to make subsequent analysis easier. Otherwise it will be too easy to breach overriding principle number 4.
9. Many index providers and quantitative analysts are already calculating and presenting data in "synthetic Euro" terms, covering periods before 1 January 1999. It is extremely important that such data is referred to as being in "synthetic Euro", as there is otherwise a risk of breaching principle number 2.

Composites and Peer Groups or Mutual Fund Categories

10. Comparing or aggregating fund performance requires special attention if the original input data is expressed in different currencies. After having checked that the funds have maintained similar investment objectives during the period under review, it is necessary (see appendix) to convert total return data prior to ECD into one single pre-ECD currency, using the historical exchange rate, before converting to euro at the fixed conversion rate for local investor's convenience. The presentations must disclose the original currencies and the single pre-ECD currency used for conversion.
11. As a result of the creation of the Euro, as well as other currencies joining the Euro subsequently, it is likely that individual benchmarks and objectives will have changed or will change for many funds. As a result, both composites (used by investment managers for performance presentation) and peer groups or mutual fund categories (used by external providers of performance measurement data) will have changed or will change. In addressing such changes, overriding principles numbers 3 and 4 must always be taken into account.
12. The providers and users of performance comparisons will have to accept that ECD will create a discontinuity in many cases. Performance providers must check that funds have maintained similar investment objectives during the period under review before aggregating funds or combining composites, peer groups or mutual fund categories. The general principles of composite construction, as laid out in GIPS (Global Investment Performance standards) should be applied throughout.

Mutual Fund Mergers

13. The practice of "merging" mutual funds will continue and could well increase following ECD, particularly as new investment universes or new asset classes and/or mutual fund categories are created. If more than one currency is involved, the same principles should be applied with regard to the use of historical track records for merged funds.

Consultants and Commentators

It would be most helpful if consultants, the financial and investment media and other commentators on the performance of funds could take into account the principles in this note when providing information and/or requesting information from fund managers.

First issue by Dugald Eadie (11 January 1999)
EFFAS Permanent Commission on Performance Measurement

Update by Alain Ernewein (10 November 2000)
European Investment Performance Committee

Appendix : Performance Measurement and the Euro

Worked Example A : Currencies converting to the Euro on 1 January 1999

Funds 1 and 2 have maintained similar investment objectives, tracking the same index. Fund 1 is valued in French franc (FRF), Fund 2 in Irish punt (IEP). The example shows that if performance data is converted in euro without care, Fund 1 may appear superior to Fund 2 despite reality being the opposite.

A 1. Fixed conversion rates would allow conversion of historic prices in euros :

	29/12/95	31/12/96	31/12/97	30/12/98	30/12/99	31/12/00
Fund 1						
Unit Price (FRF)	100	105	110	117	123	135
Unit Price (EUR)				17.84	18.75	20.58
Recast Unit Price ('euro')	15.24	16.01	16.77	17.84	18.75	20.58
Fund 2						
Unit Price (IEP)	100	98	104	110	117	130
Unit Price (EUR)				139.67	148.56	165.07
Recast Unit Price ('euro')	126.97	124.43	132.05	139.67	148.56	165.07

A 2. In creating a 'euro' track record, achieved returns appear to remain unchanged.

Our 'recast euro' returns (incorrectly) indicate that Fund 1 **outperforms** Fund 2 :

	1996	1997	1998	1999	2000	Ann'sed
Fund 1 (Recast euro)	+ 5.0 %	+ 4.8 %	+ 6.4 %	+ 5.1 %	+ 9.8 %	+ 6.2 %
Fund 2 (Recast euro)	- 2.0 %	+ 6.1 %	+ 5.8 %	+ 6.4 %	+11.1 %	+ 5.4 %

A 3. But prior to EMU, currencies fluctuated relative to each other :

	29/12/95	1996	1997	1998	1999	2000	Ann'sed
Exchange Rate (IEP/FRF)	7.84900	8.80400	8.56550	8.32896	8.32896	8.32896	
Currency Return (IEP/FRF)		+12.2%	- 2.7 %	- 2.8 %	0.0 %	0.0 %	+ 1.2 %

A 4. So we cannot compare 'recast euro' track records in currencies that used to be different.

The solution is to distinguish between the linked currencies FRF(EUR) and IEP(EUR),

	1996	1997	1998	1999	2000	Ann'sed
<i>for a French investor</i>						
Fund 1 FRF(EUR)	+ 5.0 %	+ 4.8 %	+ 6.4 %	+ 5.1 %	+ 9.8 %	+ 6.2 %
Fund 2 FRF(EUR)	+ 9.9 %	+ 3.2 %	+ 2.8 %	+ 6.4 %	+11.1 %	+ 6.6 %
<i>for an Irish investor</i>						
Fund 1 IEP(EUR)	- 6.4 %	+ 7.7 %	+ 9.4 %	+ 5.1 %	+ 9.8 %	+ 4.9 %
Fund 2 IEP(EUR)	- 2.0 %	+ 6.1 %	+ 5.8 %	+ 6.4 %	+11.1%	+ 5.4 %

When calculated in FRF, IEP (or in DEM or USD), performance figures are different ; but in any case, Fund 1 **under performs** Fund 2. Performance figures can be converted from one currency to another using historical exchange rates.

Worked Example B : Currencies converting to the Euro later than 1 January 1999

The first historical example is the Greek Drachma (GRD) that converts to the Euro on 1 January 2001. The following guidelines will extend to other currencies if/when they convert to Euro.

B 1. Historical data

	31/12/97	31/12/98	31/12/99	31/12/00	31/12/01	31/12/02
Fund Unit price (GRD)	100,000	105,000	110,000	117,000	123,000	135,000
Exchange/conversion rates						
Fixed conversion rate					---- 1 euro = 340.750 GRD ----	
Historical exch. Rate EUR/ GRD	N/A	326.738	329.926		----- 340.750 -----	
	1998	1999	2000	2001	2002	Ann'sed
% change GRD/EUR	N/A	- 0.97 %	- 3.18 %	0 %	0 %	N/A
% change GRD/FRF	- 6.11 %					- 2.1 %
% change GRD/IEP	- 3.44 %				----- same as GRD/EUR -----	- 1.5 %

B 2. Presenting the fund performance

i. to a Greek investor

GRD(EUR) may be used for local investor's convenience, but not for cross-boarder purpose:

	31/12/97	31/12/98	31/12/99	31/12/00	31/12/01	31/12/02
Fund						
Unit price (GRD)	100,000	105,000	110,000	117,000	123,000	135,000
Unit price (EUR)					360.97	396.18
	1998	1999	2000	2001	2002	Ann'sed
<i>for a Greek investor</i>						
Fund performance GRD(EUR)	+ 5.0 %	+ 4.8 %	+ 6.4 %	+ 5.1 %	+ 9.8 %	+ 6.2

ii. to a Euro-11 based investor

Use the Euro currency, but remember that Euro does not exist as an actual currency before 1 January 1999. Before 1 January 1999, choose (and specify) one of the eleven pre-euro currencies:

	1998	1999	2000	2001	2002	Ann'sed
<i>for a Euro based investor</i>						
Fund performance EUR	N/A	+ 3.7 %	+ 3.0 %	+ 5.1 %	+ 9.8 %	N/A
<i>for a French investor</i>						
Fund performance FRF(EUR)	- 1.4 %	+ 3.7 %	+ 3.0 %	+ 5.1 %	+ 9.8 %	+ 4.0 %
<i>for an Irish investor</i>						
Fund performance IEP(EUR)	+ 1.4 %	+ 3.7 %	+ 3.0 %	+ 5.1 %	+ 9.8 %	+ 4.6 %