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## **GIPS Guidance Statement on the Use of Leverage and Derivatives of October 2004 Comments**

Dear Madam,  
Dear Sir,

We are grateful for the opportunity to comment on the proposed GIPS Guidance Statement on the Use of Leverage and Derivatives.

Please find enclosed the response of BVI with comments and suggestions, on the proposed Guidance Statement. BVI represents the German investment and asset management industry. Our members include 76 fund and asset management companies which manage in excess of 1 trillion Euros in retail and institutional collective investment vehicles (CIV), as well as mandates. In particular, our members represent 99% of funds under management in German and German sponsored foreign CIVs. Our members serve about 15 million investors in Germany.

### **1. Do you agree with the principles established in the Guidance Statement?**

We agree with the principles laid out, however we would like to see some more clarification as to the ex ante leverage policy that the firm should define and the handling of those accounts that allow for the use of leverage and / or derivatives. Specifically the following questions arise which should be clarified:

1. Assuming the portfolio management agreement allows for hedging transactions to be entered (covered call writing or the like), can the firm in its leverage policy exclude these accounts from the additional

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disclosures as laid out in the guidance statement (i.e. allocated to composites with no leverage and hence no further disclosures)?

2. Allocation to composites: the GIPS have always advocated that accounts that allow for the use of leverage and derivatives should be placed in separate composites, with this guidance statement certain further thresholds should be defined by the firm. Can the firm then define different threshold levels for the same strategy (say 120% / 140% / 160% etc.), depending on the allowed use of leverage and derivatives, and if this is so, does this need to be defined in some sort in the account agreements? The reason being that if a firm simply has a composite for strategy A with no leverage and one for strategy A with leverage, the composite with leverage may contain all types of accounts that allow for different amounts of leverage and hence the usefulness of the provided data may be questionable (a catch all leverage composite).
3. Will firms always be required to disclose the additional disclosures as defined by the firm even if the material threshold level was not reached for some strategies due to decisions taken by the investment committee or alike?

Regarding the Value at Risk accounting we would propose not to base mandatorily the VaR on the 95% confidence interval and one month. It should be accepted that if the standards are on a higher level (like 99% confidence interval and 10 days) by legal regulations the higher standard could be taken for accounting VaR. In this case a respective disclosure is necessary. For cost-efficiency purposes double accounting by legal requirements on the hand and by GIPS Standards on the other should be avoided.

The storage of the respective data and the necessary recordkeeping for the purposes of fulfilling this guidance statement should start with the adoption date that is June 2005.

**2. Are there other elements involved in the use of leverage and derivatives that are not included?**

We would advocate that the firm also disclosed the types of instruments that are employed in the individual strategies as well as maximum threshold levels for leverage, short positions and the like, as we deem this type of information useful to potential investors.

**3. Do you agree with the guiding principles provided for firms employing leverage and / or derivatives?**

See comments to 1 above.



**4. Do you agree with the proposed effective date?**

We see this question to be addressed to the industry participants, especially as the guidance statement will probably require some IT development or additional manual work in order for firms to maintain their compliance with the standards.

Due to the holidays at the end of this year we were not able to come to fully agreed statement in all aspects. Therefore we will send you an additional comment in the next few days hoping that this is acceptable to you.

Sincerely yours

**BVI Bundesverband Investment und Asset Management e.V.**

Signed Rudolf Siebel

Signed Carsten Lüders