

Beacon Verification Services, LLC
Comments to Proposed Wrap/SMA Guidance Statement

1. Page 4 states that “the guidance statement is not applicable to those investment management firms which provide model portfolios to others, with no discretionary portfolio management responsibility for individual SMA portfolios.” Several firms may have full discretion for wrap accounts managed for a given sponsor while at the same time only providing a model portfolio to other programs. It appears as though the assets for which the model is provided would be non-discretionary assets. Because the guidance statement on Definition of the Firm states that Total Firm Assets = Discretionary + Non-discretionary assets, it seems as though these assets for which only a model is provided would be included in the firm’s total assets. Is this the way page 4 is to be interpreted? We believe more clarification would be useful with regards to providing models and how this fits into total firm assets.
2. In the definition of the firm section, we feel there should be a reference to the fact that the firm is encouraged to adopt the broadest, most meaningful definition of the firm. This appears in the Definition of the Firm guidance statement, but we feel it should be reiterated in this guidance statement because several of the issues revolve around the definition of the firm.
3. On page 9, in the paragraph beginning “Understanding that firms...”, we believe the reference to “SMA firms” could be construed as either firms that manage only bundled fee accounts or firms that manage at least a portion of their assets in bundled fee accounts. We believe these two interpretations can create vastly different implications. We are under the assumption that this phrase is to be interpreted as firms that manage at least a portion of their assets in bundled fee accounts but perhaps not all assets are in bundled fee accounts. If this is not the case, then we believe the relaxed standards with regards to record keeping only can be utilized by firms that manage only bundled fee accounts. As a result, we believe there needs to be some clarification added to this paragraph.
4. On page 9, in the paragraph beginning “For periods prior...” it mentions that firms “may link performance without the necessary records to support the figures...”. Does the word “may” mean that if the firm has managed wrap accounts for ten years but has not maintained any records and cannot retrieve the records from the wrap sponsors then they have the option to not include wrap accounts in any composites and still be compliant with the AIMR-PPS? We know this is addressed in the first item of the Applications section, but can the firm choose not to link performance if it feels the records are not sufficient from an SEC or other regulatory body standpoint and still be AIMR-PPS compliant?

Along these lines, if the firm has managed wrap accounts in the past but has kept no records, can they simulate a wrap record up until January 2006 by netting down the equivalent institutional record even though wrap accounts had been managed? Our reading is that the answer is “yes”, but we think this specific scenario should be addressed directly.

5. On page 13, it is stated that an SMA relationship may be treated as one portfolio for dispersion. We are assuming that the relationship can be considered one portfolio for the number of portfolios disclosure as well, but we think this needs to be addressed in this section.
6. On page 13, there is a discussion of presenting pure gross of fees returns as supplemental information. Although the section references the supplemental information guidance statement, we believe the placement of the pure gross information should be discussed directly in this guidance statement; i.e. can it appear in the main statistical chart beside net of fees or should it be in an entirely different section of the performance presentation (e.g. in a table below the written disclosures).
7. On a final (perhaps less meaningful) note, we have a strong dislike for the term Separately Managed Account (SMA). This is an incredibly non-descript term for a very specific and well defined type of account; i.e. one whose transaction costs, administrative fees, management fees, etc. are bundled into one fee. Are typical institutional and private client accounts in which the client has its own account with the firm and transaction costs are tied to their respective transactions not separately managed accounts?

We agree with all other aspects of the guidance statement. Thank you for considering our comments.

Sincerely,

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