

20 September 2001

To whom it may concern

With regard to the Guidance Statement on the Treatment of Significant Cash Flows I would make the following comments. First, I would like to address a few of the additional issues that were highlighted in bullet point format in the introduction to the document. These raise some interesting proposals but there are some considerations that, I believe, would make them impractical to implement.

1. Liquid Futures Markets. It is not unusual for clients to prohibit managers from using futures so this option is often not available. In such circumstances "immediate exposure" is not possible and excluding the affected account(s) may be the only reasonable option.

2. Size of Composite Assets. Basing the definition of significant on the size of composite assets has some appeal. However while the composite result itself may be unaffected, the returns for accounts with a significant cash flow may be distorted which, in turn, would affect the dispersion of returns.

3. Monetary Values by Asset Class. This assumes that all accounts for a particular asset class are of a similar size and I do not believe this is valid.

In general I think the Standards should continue to allow the removal of accounts due to significant cash flows. However the fact this is now the subject of a Guidance Statement indicates to me there are concerns in the market that the ability to remove accounts may be open to abuse. In my opinion the most effective way to allay these concerns would be to require each of a firm's composite presentations to include:

The firm's policy on the removal of accounts due to significant cash flows.

The number of "removal events" for that composite during the period for which compliant results are being presented.

This would enable recipients of the information to judge how often a firm has removed accounts from its composites, particularly relative to the competition, and ask any appropriate follow-up questions. In terms of an implementation date I believe 1 January 2003 would be appropriate.

Yours sincerely

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