



October 29, 2002

Professional Standards and Advocacy  
Association for Investment Management and Research  
Reference: GIPS Guidance Statement – Calculation Methodology  
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We at David L. Babson & Company are pleased to comment on the proposed Guidance Statement on Calculation Methodology and encourage AIMR to continue to strive for clarity, uniformity and comparability in performance standards.

### **Responses to Comments Requested**

- *Do you agree with the principles established in the Guidance Statement?*

While specific Guiding Principles have not been explicitly delineated in the proposed Guidance Statement, the overall underlying principles are consistent with the spirit of GIPS.

We do, however, suggest the following clarification:

#### **Consistency of Cash Flows and Calculation Methodologies**

Page 4 of the proposed Guidance Statement states that “Firms are permitted to include portfolios with different calculation methodologies in the same composite (provided the methodologies are permitted according to the dates stated above). Firms must be consistent in the methodology used for each portfolio within the composite (e. g. firms cannot change the methodology from month-to-month depending on which methodology produces the highest return). Page 5 of the proposed Guidance Statement notes that “Some firms adjust for cash in-flows at the beginning of the day and cash out-flows at the end of the day. The key is for each firm to establish a policy and treat cash flows consistently.

The Guidance Statement should be clarified to allow for cash flows to be treated consistently within portfolios or composites, as is noted for calculation methodologies on page 4, based on an established policy within a given firm that may allow for differences in cash flow treatment across different portfolios, composites or asset classes because of the inherent nature of the asset class or differentiation in systems or calculation methodologies across a single investment management firm.

- *Are all areas of rate of return and asset-weighted composite calculation sufficiently covered in this Guidance Statement?*

In order to allay potential confusion, AIMR should consider including additional language, either specifically or via reference to other current Standards or Guidance Statements, regarding calculation methodologies on “nontraditional” assets such as venture capital, private placement and real estate, and the applicability/nonapplicability of this proposed Guidance Statement to these and other alternative asset classes.

- *Are there other areas of calculation methodology that should be addressed in this Guidance Statement?*

As noted above, either explicit or implicit reference should be made in the proposed Guidance Statement to alternative asset classes and the associated calculation methodologies.

- *Is it reasonable to expect that firms will be able to value portfolios at the time of any external cash flow beginning 1 January 2010 (excluding real estate, venture capital and private equity)?*

For traditional asset classes and direct-channel client relationships, this date is reasonable, with the following exceptions:

- **Wrap fee platforms.** In reporting actual wrap fee performance, many investment management firms rely on the wrap producer/sponsor to provide accurate performance data, as the use of “shadow accounting” creates a significant burden on the investment manager that is not always commensurate with the benefits gained and is therefore unfeasible in most instances. However, this reliance is subject to the administrative and systems limitations of the wrap sponsor or producer, which often exceed those limitations of the investment manager. We encourage AIMR and the rest of the investment management community to continue to strive to address the urgent necessity for wrap producers/sponsors to effectively implement systems and administration that will allow for daily valuation by the suggested 1 January 2010 date.
- **Alternative asset classes.** In addition to the noted exclusions for real estate, venture capital and private equity, we suggest that debt-based alternative asset classes including, but not limited to, private placement debt (and equity) securities, distressed debt-based products, collateralized debt obligations (CDOs) and other structured products be explicitly excluded from the 1 January 2010 implementation date for daily valuation, as they possess inherent valuation difficulties similar to those found in equity-based alternative asset classes.
- *Do you agree with the proposed Effective Date? If not, when should the guidance become effective?*

The proposed Effective Date of 1 April 2003 is reasonable, as guidance on permitted Calculation Methodologies until 1 January 2005 is not affected significantly by the proposed Guidance Statement.

We would be pleased to discuss the comments presented above and, as previously mentioned, applaud AIMR for its efforts in continuing to strive for clarity, uniformity and comparability in presentation of investment performance results.

Sincerely,

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