

DABNEY INVESTMENT CONSULTING ASSOCIATES, INC.

P. O. Box 580467
HOUSTON, TX 77258-0467

VOICE: (281) 335-3859
FAX: (281) 335-1209

July 30, 2004

CFA INSTITUTE
Professional Standards & Advocacy Department
P. O. Box 3668
Charlottesville, VA 22903

RE: "Gold" GIPS Invitation to Comment

We are honored to be able to comment on the proposed "Gold" GIPS and appreciate the opportunity to do so as part of the ongoing commitment to openness and transparency in the standards setting process at the CFA Institute.

General Comments

1. Do you support the CFA Institute's effort to revise and expand the GIPS standards?

Yes. The expansion of the transparency and comparability of performance records can only benefit all market participants over time.

2. Do you agree with the evolution process for the GIPS standards as outlined above?

Yes. The IPC seems to have a well-planned and thought-out process for proceeding with the evolution of the Standards over time.

3. Is the language of the Standards straightforward and comprehensible? If not, how can it be improved?

Yes. The language is reasonably straightforward and comprehensible, but there are always areas that can be improved. The CFA Institute should always be aware of differences in nuance and meaning around the world.

4. What modifications, if any, should be made to this proposal?

I do not agree with the proposal to make verification mandatory in 2010. Although our firm provides verification services to money managers and would presumably benefit from the mandatory verification requirement, I believe that the market should make that decision as to the value of verification of a manager's Claim of Compliance with GIPS and whether it enhances the firm's marketing efforts.

5. Do you agree with the numbering and format of the proposed revised GIPS standards?

Yes. Whatever numbering scheme is used will eventually become second nature to the users of the GIPS standards.

6. Should the CFA Institute consider any other methods for meeting the objectives of evolving the GIPS standards?

No. The current committee structure and implementation methodology seems to be working well and does not seem in need of change.

Specific Comments

1. Is the new requirement that mandates firms to provide a compliant presentation to all prospective clients too onerous a burden for firms claiming compliance with the GIPS standards?

No, it is not too onerous. If firms have to update their composite performance tables and disclosures periodically anyway, the provision of the availability of electronic copies that can be printed on demand for any prospect would seem like a minor item.

2. Is the new requirement that mandates firms to provide a list and description of composites to any prospective client that makes such a request too onerous a burden for firms claiming compliance with the GIPS standards?

No, it is not too onerous. This should be a minimum offering to any prospect of the firm as a way to educate them on what are the capabilities of the firm. Again, the provision of the availability of electronic copies that can be printed on demand for any prospect would seem like a minor item.

3. Do you agree with the new recommendation that states the firm should not market a composite to a prospective client with assets less than the composite's minimum asset level?

Yes and No. It is not reasonable to market a composite to a prospective client if you know that the prospective client cannot take advantage of that investment opportunity. However, many times, the manager does not know the assets to be invested prior to meeting with the prospective client. The availability of additional investment opportunities might free up additional assets from the prospective client that would otherwise not be invested with the manager.

4. Do you agree with the new requirement that mandates firms to be prepared to provide a compliant presentation for any composite on the firm's list of composites to a prospective client that makes such a request?

Yes. As in item 1 above, if firms have to update their composite performance tables and disclosures periodically anyway, the provision of the availability of electronic copies that can be printed on demand for any prospect would seem like a minor item. The requirement to provide such disclosures to a prospective client that requests them should be obvious.

5. Do you agree with the new requirement that requires firms to calculate composite performance by asset-weighting the member portfolio returns at least monthly (beginning 2005)?

No. I am not convinced that the increased precision of the return information derived from monthly computation is worth the additional cost to the manager firms. For those firms that believe that monthly computation increases the accuracy of their performance numbers, this may be a worthwhile expense, and they have probably already done so. Other firms may not feel that this level of precision is warranted.

6. Do you agree that the effective date should be moved from 2005 to 2010 for the requirement that stipulates a carve-out return be managed separately with its own cash balance?

Yes. Currently, many portfolio accounting systems are not able to handle this type of activity and smaller managers are resorting to spreadsheets for this carve-out activity. However, if the accounting software can segregate individual assets segments with cash within a balanced account, there seems no reason to require actual separate sub-accounts that would require custodial rebalancing. Given the ongoing inability of the software vendors to provide this service, perhaps setting a date that continually slides into the future is not the best plan. A firm deadline that is allowed to continually slide into the future is no deadline at all and is likely to be disregarded.

7. Is it reasonable for the GIPS standards to require firms beginning 2010 to value portfolios on the date of any external cash flow?

No. As in monthly weighting, I am not convinced that the increased precision derived from valuing the portfolio on the date of any external cash flow is worth the additional cost and complexity of having to price the firm's assets this frequently. Those firms that derive some benefit from this daily pricing should be able to do so, while those firms that do not see the benefit should be able to continue to use approximation methods like Modified Dietz with appropriate disclosure. I also have a little trouble with the word "any" in this context. What is material in this context? A more meaningful description might focus on some percentage hurdle of significance rather than "any" external cash flow.

8. Should the GIPS standards require firms to retroactively disclose the following when carve-out segments are used?

- (a) a list of the underlying composites from which the carve-out was drawn, and**
- (b) the percentage of the composite that is composed of carve-outs.**

No. The burden of retroactively discovering and disclosing these items historically far outweighs the potential benefit to any user of the information. Current period disclosure and ongoing disclosure from the Effective Date should satisfy the transparency need of this item. Gold GIPS itself claims to not be subject to Retroactive Application in the header of the proposal. It is inconsistent to require parts of it to be retroactive.

Once again, we thank the CFA Institute for the opportunity to offer our opinions on these Standards.

Sincerely,

Joseph T. Dabney III, CFA
President