

Association for Investment Management and Research
Professional Standards and Advocacy Department
Reference: "Gold" GIPS Standards
P.O Box 3668
Charlottesville, Virginia 22903

Neuilly, 7th July 2004

Madam, Sir,

Please find here after the comment regarding « Gold » GIPS public comment of the Performance Measurement Team of Deloitte Paris Office.

General Comments

The AIMR seeks general commentary on the proposals set forth in this document, including, but not limited to, the following questions:

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

Naturally.

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

The approach is legitimate but lacks ambition. It continues to ignore the specific nature of European asset management and its evolution is hindered by the institutions' inability to significantly improve the quality of elementary data. The standards place emphasis on form (communication media) rather than substance (elementary data is not covered, except for the rule covering the end of month publication rendered ineffective if not accompanied with valuation rules: opening / closing price, accruals accounting, obligation to value each material contribution/withdrawal, recognition of coupons, net of any non-claimable withholding taxes, etc.). In our opinion, a standard with international scope must be a benchmark of quality, and certification must reassure investors as to the adoption of best market practices (and some rules fundamentally contradict this principle: use of the Dietz methodologies until 2010). Under these conditions, allowing supposedly compliant institutions to communicate at large without prior warning to investors (stating in particular the lack of verification by an external third party) constitutes an elementary distortion of the principle of fair competition, one of the objectives of the standards. The aim these days is to regain investor confidence in asset management companies, and the revised standards do not contribute to this objective. Furthermore, under these conditions, they shall continue to resemble a consultant gimmick rather than a differentiating factor in calls for bid for asset management delegation.

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

For the layman, the glossary provides a better understanding of the standards. However, it should be more extensive and interpretation should be opened at the local level, to be developed by groups of national experts in order to provide greater visibility for the different issues.

The "market value" section does not make sufficient reference to the price set by a regularly functioning organized market, the prices to be applied, the problems of ISO-valuation using benchmarks, the relation with IFRS, etc. Reference is also made to trade date accounting, without specifying, for example, the maximum acceptable period between initiation of the trade order and its recording in the investment vehicle.

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

As described above, and to avoid misleading the investor, one of the objectives of the standards should be reconsidered, and the standards should be limited to the actual role they presently fulfill: i.e. performance presentation standards and not performance calculation standards (the inaccuracies and laxity are too consequential in terms of impact to claim the later status).

Furthermore, there is no error definition which is significant for performance measurement. This information, provided in the GIPS standards (obligation to value outstandings if a contribution/withdrawal would have an impact of +/- 0.2% on the performance of the asset over the period), is not required and increases the approximation of the performance.

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

No comment.

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

In my opinion, two objectives have not been achieved (resolution 7 on data accuracy and resolution 8 on fair competition) as explained above.

Specific comments

The AIMR seeks comments on the following, specific provisions of the proposal:

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?

This is not a problem in our market provided that the firms can continue to simultaneously present their UCITS performances that are currently calculated on a more stringent basis (and which may ultimately benefit from a quality standard which is more sensitive to the degree of requirement sought by the authorities and institutional investors: Standard NF 343 on financial reporting).

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

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?

If we are talking about the sale of **portfolios** in reference to a composite with an asset level higher than that of the intended sale, I am not convinced that this recommendation will limit abuses since the legitimacy of the standards is hardly recognized in France. Excluding all portfolios below the asset level from the firm's scope would be more effective (especially if presentation of the firm's outstandings is rendered mandatory as previously described with respect to the total assets managed by the institution).

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?

We do not consider this to be a problem. French firms have access to general and specific information for all composites, even if the creation of each composite is not documented systematically.

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)?

We have been applying this rule since the standards were adopted by French firms (1996). Furthermore, French firms use the "true" Time-Weighted Rate of Return calculation method which is akin to the only acceptable method for quality performance measurement (based on a cash flow materiality threshold). Not using this method for a composite is likely to introduce bias into the composite performance calculation, which would have greater consequence than not calculating returns at least monthly.

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?

The use of carve-outs is limited in our market.

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

This does not make technical or methodological sense.

In our opinion, this rule should be applied as from January 1, 2006. Otherwise, rule 1A 8 is no longer valid. Why value portfolios at identical dates if the method retained can generate technical anomalies worsened by the observed increase in historical market volatilities. A fair approach would be to define a cash flow materiality threshold (see GIPS recommendation 2B2) for portfolio outstandings and limit revaluation to all cash flows in excess of this threshold.

1A 8 is all the more unsuitable for the following reasons:

1. It was not specified whether the end of the calendar month or the last trading date of the month was concerned (we would point to the difficulties encountered for international portfolios that do not have identical trading calendars)
2. The valuation rules have not been identified (should we combine, within the same composite, portfolios valued at the opening trade price with those valued at the closing trade price even though, statistically, there is less difference between the previous night's closing trade price and the opening trade price)
3. This provision does not formally prohibit interpolation or extrapolation (methodologies in complete contrast to the standards as they do not reflect the investment process of the firm).

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 carves-outs.

Both points are relevant.