

July 30, 2004

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

From: Douglas S. Rogers, CFA, - Chairperson of the AIMR Subcommittee for
After-Tax Reporting

Subject: Submission to Invitation to Comment: Revising the GIPS Standards
("Gold" GIPS)

The purpose of this memorandum is to comment specifically on the omission of the subject of after-tax reporting standards in the proposed "GOLD" GIPS Standards. Perhaps it was missed during my review, but in my review I did not come across mention of or reference to the existing AIMR after-tax reporting standards.

AIMR after-tax reporting standards have been in existence for 10 years. Since 2000, substantial time and effort has been invested by the Subcommittee of a dozen dedicated and selfless professionals with diverse industry knowledge and experience to first address the proposal by the United States Securities and Exchange Commission (SEC) for mutual funds and then consider revisions to the existing after-tax standards for separate account composites. The SEC action followed the adoption of the Tax-Awareness Act which passed the Congress by a vote of 385 to 2. This overwhelming signal individual investors, along with the fact that many believe taxable assets comprise approximately half of the trillions of dollars of liquid financial assets in the U.S., clearly demonstrates the need for after-tax reporting standard. After-tax reporting standards are now mandatory for almost all mutual funds in the U.S. with the exception of money market funds and those funds serving only tax-exempt accounts.

In the beginning of 2003, the revisions to after-tax standards proposed by the Subcommittee were endorsed by the AIMR Board and later adopted by the IPC. While recommended or optional, because not all firms manage taxable accounts, they are being embraced at a more rapid pace as we approach the "effective date" of January 1, 2005. A select group of vendors have responded and now both stand alone and add-on software solutions are available to investment management firms. Several firms offer consulting services to assist in after-tax implementation. Some firms closely monitored the progress of the after-tax standards and were able to claim "AIMR compliance" almost 18 months prior to the upcoming effective date. Additionally, the countries of Canada and Australia have shown interest in following the lead of the United States to satisfy growing demand within their own countries.

With the work the Subcommittee has done a foundation of knowledge on after-tax reporting has been established. While taxes are different in each country around the world, modifications to the calculation methodology are actually straight forward and consist of no more than debits and credits if you may. The work that has been done in U.S. should serve to develop a simple template, where other countries have a desire to adopt after-tax standards can simply fill in information pertaining to the nuances of the unique aspects of their country's tax code to establish "country specific" standards. This would ensure consistency and allow for the natural evolution of after-tax reporting. Is this not the purpose of having an IPC to start with?

For the IPC to ignore after-tax is a sign that it is simply neglecting the needs of the taxable account community. While I do not have access to the % of taxable assets in other countries, others suggest the amount of taxable assets may be even larger than in the U.S., as the pension, endowment and foundation markets have had more time to develop in the U.S. than in some other countries.

If the IPC fails to support after-tax reporting standards it could be one factor that could fracture the membership with the CFA Institute, as numerous taxable account practitioners already feel somewhat neglected and could conceivably embrace other professional organizations that prove to be more supportive of their professional needs.

I trust that as a result of the comments and thoughts presented here and of others, the IPC will embrace the need for a global after-tax reporting standard and dedicate the resources necessary to ensure they come to fruition.