

CFA Institute
Professional Standards & Advocacy Department
Reference: “Gold” GIPS Standards
P.O. Box 3668
Charlottesville, Virginia 22903
USA

26 July 2004

Proposed Revisions to the GIPS Standards (“Gold” GIPS)

Dear Sir / Madam,

The European Investment Performance Committee (EIPC) is a regional sub-committee of the Investment Performance Council, which consists of representatives of more than 20 European countries. At the last meeting held on 11 June in Edinburgh the EIPC discussed the proposed revisions to the GIPS standards, and on behalf of the Committee I would like to provide you with a summary of our comments.

Education of investors on the GIPS standards

The EIPC fully supports the CFA Institute’s efforts to continuously develop the GIPS standards and commitment to fair representation and full disclosure. Indeed, the CFA Institute has been successful in promotion of the GIPS standards in the investment management industry. However, we see a further need for improvement regarding education of *investors* on the GIPS standards. The EIPC members will welcome any further efforts of the CFA Institute to promote the GIPS Standards among investment management clients and will be glad to support the CFA Institute in these activities.

Postponement of the GIPS technical provisions

The EIPC is generally concerned about the current inclination to postpone some future requirements of the GIPS, especially those, which have been known for a long time, such as treatment of carve-outs or accrual accounting for dividends. While we understand the need to perform a re-assessment of some future provisions in terms of their feasibility, such postponements pose a potential credibility issue and may put firms who have undertaken efforts to comply with the new requirements in disadvantage.

Provision of a list of all composites and GIPS compliant presentations to prospective clients

The EIPC supports the proposed requirement to provide a list and description of composites and compliant presentations to prospective clients if a client requests it. However, term “prospective client” should be properly defined. It should also be clarified how interaction on the GIPS compliance with other third parties (e.g. existing clients, competitors, analysts, etc.) will be regulated within the GIPS framework.

Verification

As of 1.1.2010, an independent verification by a third party is proposed to become mandatory. Firms will have until 31 December 2011 to complete the initial verification.

The EIPC supports this proposal as the verification delivers the credibility to the claim of compliance. The act of making verification mandatory in the future has also been indicated in the present version of the GIPS standards.

However, the EIPC is concerned by the apparent looseness of the proposed arrangements for the introduction of verification (the paragraph in section III stating “During the next GIPS revision cycle, currently planned for an effective date of 1 January 2010, a reassessment will be performed to ensure the effective date of 1 January 2010 is still appropriate in light of market conditions”). In view of our general disagreement with the current trend to postpone some GIPS future provisions as described above, we believe that to imply that this deadline may be extended too is not an appropriate signal to the industry.

In addition, the Standards should elaborate at what interval verification must be performed (e.g. annually).

Mandatory application of the “true” Time-Weighted return methodology from 2010

The EIPC supports the proposed mandatory application of the “true” Time-Weighted return methodology beginning 2010.

We also recommend to include an explicit reference to the Guidance Statement on Calculation Methodology (in effect since 1 June 2004), which provides a detailed guidance with respect to the “true” Time-Weighted Return methodology.

Definition of the Firm

According to the Revised GIPS, the definition of the firm is no longer permitted as:

- an entity registered with the appropriate national regulatory authority overseeing the entity’s investment management activities;
- all assets managed to one or more base currencies (was allowed only until 2005).

Hence, the firm can now only be defined as an investment firm, subsidiary, or division held out to clients or potential clients as a *distinct business entity*.

The EIPC believes that there are situations in which defining the firm as an entity registered with the appropriate national authority may be equal to a distinct business entity. In addition, in some European countries it is a common practice that firms are defined in terms of GIPS according to such registrations with the national authority overseeing the entity's investment activities.

The Standards should elaborate in which situations defining the firm as an entity registered with the appropriate national authority would still be acceptable. In addition, a clarification is needed on whether the existing firms, which were defined according to the old rules, will be exempted from the new provisions or will have to redefine themselves.

Application of the trade-date accounting

The requirement to use the trade-date accounting principle is clarified in the GIPS Glossary. As of 1.1.2005, firms must recognise the asset or liability on the date the transaction is entered into. In some European countries the booking date principle is often applied (i.e. transactions are recognised with an up to T+3 day delay after the trade date). The Standards should clarify that such practice still corresponds in substance to the trade date principle.

Disclosure on use of sub-advisors

The revised GIPS (4.A.22) state that the firm must disclose any discretionary use of a sub-advisor(s). The Standards should provide additional clarification with respect to the scope of this disclosure (e.g. would inter-company sub-advisors also fall under this definition). In general, the EIPC believes that a simple disclosure stating that sub-advisors are used by the firm should be sufficient.

Calendar month-end valuation

The proposed requirement 1.A.8 states that "For periods beginning 1.1.2006, the firm must value portfolios as of the calendar month-end". The GIPS Guidance Statement on the Calculation Methodology also elaborates that "firms must value the portfolio/composite on the last day of the reporting period (or the nearest business day). Aggregating portfolios with different ending valuation dates in the same composite is not permitted after 1 January 2006".

The Standards should provide additional clarification on whether the process of calendar month-end *valuation* also implies the use of calendar month-end securities *prices* consistently across all portfolios in the composite.

Other matters

The EIPC supports the following proposed provisions:

- that firms must have written policies and procedures used for compliance
- that firms must abide by guidance and interpretations
- that firms must disclose a description of the investment objectives/style/strategy of the composite
- the streamlining of the effective dates of some GIPS Guidance Statements (Fees, Real Estate, Private Equity Provisions and Advertising Guidelines) to become in line with the effective date of the “Gold” GIPS (1.1.2006).

Many thanks for giving us the opportunity to respond to the CFA Institute’s invitation to comment on its proposals regarding revisions to the GIPS Standards.

Yours sincerely,

Stefan Illmer
Chairman of the EIPC