

On behalf of the French Society of Investment Professionals, we wish to thank you for giving us the opportunity to express our views on the new “Gold” GIPS standards. In general we support and approve most of the changes and additions suggested with the exception of a few comments outlined below.

We are somewhat nervous about any confusion in the investing public which might stir out of new terminology on standards. The new standards ironed out the confusion between Level 1 and Level 2 certification under AIMR PPS, so we should not introduce confusion in the public regarding compliance to GIPS vs. “Gold” GIPS. Our reading is that these amendments to standards do not and should not represent any fundamental change in GIPS but essentially clarify a number of existing principles. Hence, we would resist the urge to label the new standard as *Gold standard*. (In fact, we find the reference to Gold Standard historically and ideologically questionable). Lastly, we believe that the issue of after tax performance presentation is the real hard nut to crack which might lead to a more general “unified field GIPS”.

In terms of general philosophy, we believe that the AIMR PPS/GIPS initiatives have been structured in view of establishing standards for institutional clients and that this marketing relation with qualified investors can be developed as a self regulation initiative by the investment profession. But, while the marketing of a discretionary account concentrates only, or essentially, on the due diligence of the investment process, the marketing of a mutual fund (or pooled, commingled) also deals with the specific characteristics of the collective investment scheme (CIS) and associated marketing. Hence, we are not sure that mutual funds clients should necessarily be given the GIPS compliant report. Some ethical issues linked to mutual fund performance presentation and advertisement are similar to the initial “raison d’être” of AIMR PPS/GIPS, namely survivorship bias, process discontinuity, lack of comparability, etc. But these issues probably can’t be dealt through self regulation and fall out of the scope of GIPS application in our view.

In reverse, CIS returns may well be integrated in a GIPS composite used for institutional presentations provided that some issues be clarified. The integration of CIS’s in composites eliminates all the problems linked to interim cash flows since subscriptions/redemptions can only take place on NAVs. It also leads to a number of problems among which the computation of gross returns by plowing back expenses which are at times difficult to unbundle when they mix transaction, custody and management fees, the frequency and specificities of fund valuations which do not always happen at end of month in the same way as mandates. Also, it is often argued that the liquidity constraints associated to the management of a CIS alters the investment process and has an impact on performance. Hence some but not all asset management firms place their CIS accounts in a separate composite or even exclude them from their definition of the firm. Some guidance should be expressed on the necessary disclosures linked to these issues.

The definition of a firm by currency base seems indeed fairly artificial and should not be used as a criterion for firm definition. On the other hand, some firms may validly consider that only some of its investment management capacities are worthy of institutional marketing and may choose to define an ad hoc firm definition covering only these investment strategies; should such practice be tolerated and with what disclosures? For the reasons discussed above, the question of the inclusion/exclusion of mutual funds in the definition of the firm should also be raised. At any rate, it should be made absolutely clear that firm definition as all other GIPS standards needs to be interpreted in good faith and with the objective of giving a clear and honest picture of the marketing offer.

Firms should continue to present their total firm assets under management and the percentage of TFAUM for each composite. Given the double counting consequences of using carve-outs, guidance should be provided as to the presentation of gross and net TFAUM so that total percentage adds up while disclosing operational net TFAUM figure. AUM disclosure provisions have very positive side effects in clarifying standards for size comparison between firms. Size

constitutes indeed an important marketing argument and as such an area of potential window dressing or misrepresentation.

Valuation dates should indeed be consistent in a perfect world but that is sometimes very difficult for large global firms especially when CIS's are included in the composites. We are not sure this will always be possible and would therefore recommend a provision for procedures and disclosures when it can't be achieved.

Consistency of valuation procedure with benchmark is a valid objective to ensure comparability but we fear it will also be very difficult to implement. Valuation on opening or closing prices differs between accounts and can't always be changed for marketing reasons. More important, given the recent scandal linked to mutual fund stale price arbitrage, it seems sensible that firms will make a greater use of fair valuation procedures. This practice may lead to inconsistencies until a universal fair valuation model is agreed upon which may take some time. We believe a provision should be made on these very important issues; they go much further than the FX discrepancies which are the only ones to be mentioned.

We do not understand why the exclusion of pure carve-outs has been pushed to 2010. We believe that carve outs of diversified accounts can only be assimilated to accounts on a specific asset class or strategy if there is a strict hierarchical process which allocates cash from top to bottom and that the interaction effects between the independently managed sub accounts are minimal. Otherwise, we believe that use of carve outs lead to misrepresentation of the investment strategy and recommend that such practices be altogether prohibited. We do not understand how it can be considered burdensome not to do something? If carve outs are effectively managed as if they were independent accounts, disclosing their origin and their weight would not provide useful information and therefore would not be necessary. On the other hand, if their validity is tainted, providing such disclosures would not in our view suffice to clean them of their original sin.

Mandatory verification does not seem like a big issue and has almost always been considered as a de facto obligation.

Significant cash flows tend to disturb process and penalize performance. Recommending, yet alone allowing, temporary warehousing account would seem sufficient to ensure that firms capable of managing such procedures will apply it. Guidelines for the use of such provisions for CIS's should be given.

Firms should be allowed to show composite performance to clients with smaller assets than the required level but only as supplemental information and with the proper disclosures on the reason behind the composite cut-off limit and the estimated effect of managing a smaller amount.

In addition to disclosing the firm's official fee schedule, it could be argued that disclosure of the range of actual fees and their average should also be disclosed (Weighted average of fees should correspond to difference between gross and net return composites). Since GIPS requires presentation of the 'official' fee schedule, it should not misrepresent the actual marketing practices of the firm. On the other hand, here again the inclusion of CIS's leads to technical issues since their fees are typically much higher than those applied to institutional accounts. This is partly due to the fact that they include distribution charges, marketing expenses, auditor fees, etc... These could arguably be deducted but the issue remains murky in our view.

Any event which would reasonably be considered to impact the pertinence of the performance presentation should be disclosed. Ownership as such should probably not be considered as a material change. But changes in the process, its guidelines, benchmark, trade execution policy or in key personnel should almost certainly be considered as material changes which should be disclosed.

Firms need to disclose the possible use of sub-advisors and its limits as elements of its investment process. In this respect, the possible use of third party CIS's in an account should also be disclosed. The actual use of such advisors or any other external management service could then be considered like any other investment decision in the framework of a clearly identified process including external asset management selection as it is the case for managers of managers.

The question of benchmark attribution for balanced, asset allocation, total return portfolios should avoid being overly prescriptive but should provide further guidance on best practices. Some discussion on the use of different benchmarks (cash, equity, composite) should be included and some guidance in the grouping of accounts by risk level.

When a firm has many different application of the same investment process due to client specified guidelines, some provisions should be given to express 'macro-composite' performance presentation on an excess return basis. Indeed, it often happens that a clearly identified investment strategy is responsible for a wide array of similar yet different composites and the presentation of a large number of composites, each with a small number of accounts leads to confusion in client presentations. We would favour establishing guidance for presenting a consolidated view of the excess return data which are supposed to be consistent.

We believe that accrual accounting of dividends should be an obligation starting 2005.

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