



Friday, August 13, 2004

CFA Institute
Professional Standards and Advocacy Department
Reference: "Gold" GIPS Standards
PO Box 3668
Charlottesville, VA 22903

Dear AIMR Professional Standards and Advocacy Department,

Thank you for the opportunity to comment on the proposed revisions of GIPS. We appreciate the efforts and steps being taken to standardize the manner in which investment presentations will be accepted on a global basis. Please see responses to the commentary below:

Commentary regarding Gold GIPS

1. Do you support AIMR's effort to revise and expand the GIPS standards? *Yes, we support the revision and expansion of GIPS.*
2. Do you agree with the evolution process for the GIPS standards as outlined above? *Yes, the process to review and enhance the GIPS standards is in accordance with good business practice and utilized the expertise of the industry.*
3. Is the language of the Standards straightforward and comprehensible? If not, how could it be improved? *Yes, the proposed rewording of several articles provides for greater clarity in understanding what is required in terms of presentation and definition.*
4. What modifications, if any, should be made to this proposal? *We feel that the proposal will lead the investment industry in the proper direction for uniformed representation of investment results. We also believe that the standards will continue to be living documents, which will require revision and modification based upon changing business environments. Comments follow the response to the standard questions.*
5. Do you agree with the numbering and format of the proposed revised GIPS standards? *Yes, the numbering and format of the GIPS standards are appropriate.*

6. Should AIMR consider any other methods for meeting the objectives of evolving the GIPS standards? *AIMR should continue to encourage experts from all fields of the industry to participate in the continued evolutionary process of GIPS.*

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? *No, we do not believe the requirement is onerous. A firm should be required to provide all prospects and clients compliant presentations if they wish to claim compliance with GIPS standards.*
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, a prospective client should be provided information that is pertinent to making a decision on whether to engage with an investment advisor. This firm should be maintaining this type of information to monitor their composites.*
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, if a prospective client were unable to meet the minimum asset levels, it would be inappropriate to market that particular mandate to them.*
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, if that firm intends to offer that investment strategy to the prospect. This presentation should include the most recent quarter end reporting available.*
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)? *Yes, this will present a more accurate reflection of the composite. Monthly valuations would obviously be more accurate than quarterly. Most performance systems are capable of supporting this type of calculation. Portfolios and composites should be calculated in a similar manner.*
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, this could be an onerous task for many firms today. Five years to transition the migration of the accounting and reporting should be more than sufficient for the industry to comply with the new carve out requirement.*

7. Is it reasonable for the GIPS standards to require firms beginning 2010 to value portfolios on the date of any external cash flow? *Yes, this request is reasonable and will also support a standardization of reporting investment results across the industry. Five years should be more than adequate for organizations to enhance systems to support this requirement. More clarity should be provided in the future in terms of reporting the granularity of returns beyond a total fund perspective.*
8. Should the GIPS standards require firms to retroactively disclose the following when carve-out segments are used?
 - a. A list of underlying composites from which the carve-out was drawn: *Only if requested by the client.*
 - b. The percentage of the composite that is composed of carve-outs. *Only if requested by the client.*

Additional Comments regarding Gold GIPS

Comment regarding:

2.A.2 Time-weighted rates of return that adjust for cash flows must be used.

The definition of Time-weighted rates of return should be clearly communicated with an example of how the rate of return should be calculated. There have been debates on the semantics of what is a money-weighted versus time-weighted rate of return.

2.A.7 If the firm sets a minimum asset level for portfolios to be included in a composite, no portfolios below that asset level can be included in that composite.

Although we agree that the membership of a composite should be consistent with its own definitions, portfolios that are valued close to the minimum could present some in and out complexities with regards to the consistency of the composite membership. We have seen conditions where portfolios could be members of a composite and excluded from a composite, and then a member again within consecutive monthly valuation periods. Perhaps there should be some latitude in terms of the minimum asset level for membership after a portfolio has become a member of the composite. The premise is that although the portfolio valuation has gone below the minimum requirement, due to market effect, it will continue to be managed in the same manner, as it was when it was initially included in the composite.

Comment regarding New Provisions

Each of the new provisions for Gold GIPS standards will contribute significantly to the understanding a prospect or client will have about the results a firm has experienced and empower them to compare those results on an equal basis to other investment products with similar mandates. Disclosure of how investment results are achieved is key to clients and prospects understanding which firm will potentially suits their needs the best. Mandatory third party verification would assist in validation of the integrity of the process of a firm claiming compliance. Although this could be costly, many firms may be out of compliance honestly and not realize this without that independent review. This is an issue that should be considered for further review and guidance.

Modified Provisions and Target Effective Dates Moved

The moving of the targeted date for accruals should be congruent with the 2005 requirement to recognize the asset or liability on the date the transaction is entered into. This would be more consistent and accurate in terms of recognizing the value and performance of each asset. We recognize that today the impact would be potentially small, however, there could be market conditions, which could impact reporting period results.

Thank you for the opportunity to submit commentary regarding the GIPS revisions and enhancements, we fully support the efforts to present investment results in a uniform manner across the industry.

Sincerely,

Todd Brunskill
Managing Director
First Rate
972-660-1550, Ext. 139