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CFA Institute
Professional Standards & Advocacy Department
Reference: "Gold" GIPS Standards
P.O. Box 3668
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Dear Sirs

Noted below is HSBC Global Fund Services Limited's response to the recently published Gold GIPS proposals.

General Comments

1. While we support the concept of Gold GIPS as a single, globally recognised performance standard, we would like to remind the CFA Institute of one of the important points we have consistently made in previous submissions. We are concerned that GIPS is becoming broader, more technically demanding and therefore more costly to implement at a time when a significant number of firms have still to comply with the original standard. In our opinion the efforts of the CFA Institute would be better directed into encouraging more firms to become compliant than expanding GIPS and running the risk of this acting as a barrier to compliance.
2. We note in the document's Executive Summary that, in the CFA Institute's opinion, Gold GIPS will "*help eliminate the need for separate standards in different jurisdictions*". We believe this is an extremely important objective, particularly with regard to the US market's recognition of GIPS, and that the CFA Institute should have the elimination of local standards as one of its main aims. In fact we would go further and suggest that, with the implementation of Gold GIPS, all CVGs should be discontinued. This would eliminate any possibility of investors or their advisors favouring their "own" standard over GIPS and introduce a playing field that is truly level.
3. We are extremely disappointed with the proposal to change the effective dates for the requirements covering accrual accounting of dividends and the use of carve-outs.

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As the Executive Summary points out, GIPS was first published in April 1999 and we feel that firms have therefore had ample time to prepare to meet the effective date of 1 January 2005. Many firms will have spent time and money on doing just that and may also have rescheduled other projects in order to meet the GIPS deadlines. We believe these firms' view of both GIPS and the CFA Institute will be adversely affected should the dates be revised.

More importantly we feel revising these dates sends out the wrong signals to the market in general. We are particularly perplexed with the change that allows the use of carve-outs until 2010, especially considering the inclusion of recommendation 3.B.3. The comparison matrix states that this recommendation was added in "an attempt to halt industry abuse in regards to carve-out management until requirements to manage cash separately comes in to effect in 2010".

The way to halt industry abuse of carve-outs is to stick to the original plan and prohibit their use from 2005.

4. Throughout the draft there are many uses of the words "significant" and "material". We believe that more guidance or examples are required to clarify the meaning of these words in a GIPS context. Without this, their use in many cases simply leads to ambiguity and confusion.
5. The "Summary of Proposed Revisions to the GIPS Standards" states that firms "must abide by guidance and interpretations, including the GIPS Handbook". We believe this requires further clarification as, in our opinion, FC.A.10 does not actually state that firms are required to follow guidance statements.

If firms are required to follow guidance statements to the letter we would have some concerns. We believe the market generally perceives guidance statements as examples of best practice and that while GIPS requirements must be met, it is sometimes not possible or practical to implement everything contained in a guidance statement. We believe this perception results in fewer firms responding to drafts than would be the case if firms knew these guidance statements were to be followed to the letter or were likely to become GIPS requirements in the future.

In future, when publishing draft guidance statements for public comment, we believe the IPC should clearly state that the guidance statement, once adopted, must be followed and that it is likely to become a GIPS requirement at some point in the future. This should ensure those that will be most affected by guidance statements realise the importance of providing feedback.

6. As expressed previously we do not support the requirement for mandatory verification. Although HSBC has offices in over 80 markets we cannot claim to have staff capable of carrying out verification in each. While verifiers will have a suitable presence in many individual markets (or regional centres) it is by no means all. Consequently we believe that firms in many markets would struggle to find a suitable verification firm leading to a lack of competition and/or increased cost. As a result GIPS may become a standard that only the largest firms with deep pockets could meet. Our preference is encourage compliance by letting local market forces decide whether verification should be a “requirement”.
7. We are pleased to see the addition of the section titled “Fundamentals of Compliance” as this adds much-needed clarity. However we would like to specifically mention the following points.

Fundamentals of Compliance - FC.A.3. The text in brackets that refers to “interim performance information” is likely to cause confusion as we believe that what is actually being referred to is the use of “Flash Reports”. The AIMR-PPS Advertising Guidelines do refer to “Flash Reports” but the use of such reports is not covered in the GIPS Advertising Guidelines. Consequently we suggest that the text in brackets should be removed.

We strongly agree with FC.A.9 regarding the Documentation of Policies and Procedures as we believe it will make compliance and verification more efficient and transparent.

8. Calculation Methodology - 2.A.11. We believe that this requirement should be included within 2.A.2 or moved so that it follows it sequentially.

Further, we understand that this requirement will become obsolete when “true” Time-Weighted Rate of Return calculations become effective from 1 January 2010. Therefore, we suggest that this requirement is qualified with the addition of the following text shown in italics. “*For periods prior to 1 January 2010, performance adjustments for external cash flows must be treated in a consistent manner...*”
9. Composite Construction - 3.A.1. The exclusion of non-discretionary portfolios in composites is or could be restrictive to some investment houses, especially those that manage money on behalf of charities.

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Therefore, we suggest that 3.A.1 should read: “All actual, fee-paying, discretionary portfolios must be included in at least one composite. While non-fee paying discretionary portfolios may be included in a composite (with appropriate disclosures), *non-discretionary portfolios must not be mixed with or included in composites that include discretionary portfolios. Any composite that is comprised of non-discretionary portfolios must be disclosed as such*”.

10. Disclosures - 4.A.2 (disclosure of Total Firm Assets). Our view is that it is helpful to retain this information and would appreciate clarification as to why it is being removed.
11. Disclosures - 4.A.10 (exposure to non-benchmark assets). The wording as proposed seems to require disclosure irrespective of the level of exposure. If this is the intention, we believe it will create a lot of additional work for very little added benefit. Most composite management systems hold only total account values and returns. They tend not to hold anything at market, sector or asset level so compiling this information for all composites would be logistically difficult.

Many firms will often select an account that is representative of others within the composite and disclose this account’s investment outwith the benchmark as a proxy for the composite. Consequently, we believe that this disclosure would be more manageable for firms if they were only required to provide a disclosure of investment outwith the benchmark if such investment was (say) 10% or greater.

12. Disclosure - 4.A.23. Further clarification is sought here as to what is meant by “significant deviations between annual and interim performance results”.
13. Disclosure - 4.A.28. Five years seems overly burdensome for firms and we suggest the IPC consider amending the term to three years.
14. Presentation and Reporting - 5.A.1.a. Under the current version of GIPS, firms are required to present annual results only. Therefore, for composites that begin mid-year, firms are not required to present part-year returns.

Keeping with the spirit of GIPS and to ensure fair representation and full disclosure, we believe there is merit in adding a requirement for firms to disclose the composite inception date and disclosing that part-year returns are available upon request.

Formatting Comments

1. We suggest that the IPC consider adding 2.A.8 with 2.A.4, or consider moving it so it follows 2.A.4, sequentially.

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2. We suggest that the IPC consider adding 4.A.28 to 4.A.3, or consider moving it so it follows 4.A.3, sequentially.
3. The IPC may wish to consider changing the dates on the Sample Presentation (Appendix A) so they are current. In addition the Standard Presentation is based on the current version of GIPS rather than the Gold GIPS draft. While it would have been advantageous at this stage for respondents to see a Gold GIPS Sample Presentation, we assume such a document will definitely appear in the Gold GIPS handbook.

Yours faithfully

Colin Kay
Director