

CFA Institute
CFA Centre for Financial Market Integrity
P.O. Box 3668
Charlottesville, Virginia 22903
USA

23 December 2004

Dear Sir/Madam

**GUIDANCE STATEMENT ON WRAP FEE/SEPARATELY MANAGED
ACCOUNT PERFORMANCE**

With regard to the proposed GIPS Guidance Statement addressing the calculation and presentation of Wrap Fee/Separately Managed Account performance, HSBC Institutional Fund Services have the following comments.

1. Page 6. Under the section headed "Guiding Principles", the third principle states that firms "may show simulated performance history for periods prior to the acquisition of actual SMA portfolios". This would appear to go against the GIPS provision 3.A.8; "*Composites must include only assets under management and may not link simulated or model results with actual performance*". Please clarify the meaning of this guiding principle.
2. Page 10. Under the section headed "Maintaining Composites Once SMA Portfolios Are Obtained", the firm is given the option to "Redefine the composite to include only actual SMA portfolios going forward". Although the guidance statement on composite definitions does state that composites can be redefined in rare circumstances, we believe doing so is not within the spirit of GIPS.

Furthermore, the guidance statement on Composite Definition states (page 3) "*Creating meaningful composites is critical to fair presentation, consistency, and comparability of results over time and among firms. Firms must establish...*"

If firms are to have the option to redefine composites, this should not lead to the removal of accounts from composites either retroactively or going forward. Otherwise, the aim of achieving comparability of results over time is not met. Please clarify the intention for allowing firms to redefine composites.

3. Page 13. Under the section headed "Effective Date", it is discussed that firms that manage SMA portfolios do not need to wait until they are able to build a 5-year compliant track record in order to claim compliance with GIPS.

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To aid clarity, please confirm that a firm that manages SMA and non-SMA portfolios must have all supporting data for at least 5-years for both types of portfolios in order to combine them in one firm and claim compliance with GIPS. For example, a firm cannot have a SMA composite with a “compliant” track record beginning 2006 and a non-SMA track composite with a 5-year track record.

We appreciate the unique circumstances of SMA portfolios, however their exclusion from a firm due to missing records/data does raise a number of questions. For example, can an investment manager exclude other types of clients/portfolios from their firm definition if for these clients/portfolios they are missing supporting records/data? Your thoughts on this topic would be useful and would add some clarity.

Yours faithfully

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