

Response to the Proposed Guidance Statement on Calculation Methodologies

The Joint IAIM/SIAI committee on Performance Measurement acts as the country sponsor of GIPS Ireland, the cvg approved at the Los Angeles meeting of the IPC in May 2001. The committee comes under the joint auspices of the Irish Association of Investment Managers and the local AIMR chapter, the Society of Investment Analysts in Ireland. The committee membership is drawn from a wide body of stakeholders in the GIPS project, including investment managers, investment consultants, verifiers and pension fund clients.

Following a request for comment from Irish stakeholders, the Joint Committee would wish to make the following comments:

- **Do you agree with the principles established in the Guidance Statement?**

Yes – we believe that the statement offers welcome guidance on the issue of return calculation methodology. There are some items within the statement which we feel require clarification, and these are outlined below.

- **Are all areas of rate of return and asset-weighted composite calculation sufficiently covered in this Guidance Statement?**

The Daily Valuation Method, as outlined within the statement, carries with it an assumption that cash flows should be weighted using an “end of day” approach. We would contend that the manager could employ other equally valid assumptions regarding the timing of cash flows, e.g. “start of day” / “mid day” / or at some other point during the day. Indeed the statement acknowledges this point when dealing with an earlier methodology - (reference: page 5 of the Guidance Statement) where it states “Some firms adjust for cash in-flows at the beginning of the day and cash out-flows at the end of the day”. The important point being that the firm should not be compelled to use one particular assumption, rather - to quote from the same part of the statement - “The key is for each firm to establish a policy and treat cash flows consistently”. We contend that this same principle should apply to the Daily Valuation Method. The firm’s policy re timing of cash flows should then be covered in the disclosures.

To capture this more flexible approach, the formula may thus be expressed as:

$$R_n = \frac{(EMV - BMV - CF)}{BMV + (CF \times W)}$$

where EMV includes the cash flow and any gain or loss that may have accrued on the cash flow over the day, BMV is the end market value of the previous measurement period prior to the cash flow event, CF is the cash flow and W is the weight applied under the firms policy on cash flow weighting.

We are concerned with the use of the word “likely” in the Standards (2.A.2.) and as used in the Guidance Statement with regard to the Daily Valuation Methodology - “Actual valuations at the time of external cash flows will *likely* be required for periods beginning 1 January 2010”. The use of this wording gives rise to ambiguity in the standards. What is the rationale for the word “likely”? Is it intended that this will remain a potential requirement, or is it intended that it will become an actual requirement, at some stage? Who will make the decision and when? We believe that the guidance statement should address this issue and provide clarity regarding this requirement.

- **Are there other areas of calculation methodology that should be addressed in this Guidance Statement?**

No.

- **Is it reasonable to expect that firms will be able to value portfolios at the time of any external cash flow beginning 1 January 2010?**

We believe that this target date is fair and should allow sufficient time for all firms to ensure their systems can cope with the additional processing and capacity requirements.

- **Do you agree with the proposed Effective Date? If not, when should the guidance become effective?**

Yes.

We would like to thank AIMR for the opportunity of making this submission, and trust that the views of the Irish market are taken into account in the preparation of the final draft to go before the Investment Performance Council.

All inquiries or comments relating to this submission should be addressed to either of the contact points listed below:

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