

Response to the Request for Public Comment on Gold GIPS

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:

General Comments

- **Do you support AIMR's effort to revise and expand the GIPS standards?**

Yes, It is important to move closer towards a single set of standards building on the original standards and guidance statements.

- **Do you agree with the evolution process for the GIPS standards as outlined in the proposals?**

Yes.

- **Is the language of the Standards straightforward and comprehensive?**

Yes, the comparison matrices and summaries are particularly useful.

- **What modifications, if any, should be made to this proposal?**

As will be detailed further in this submission, we are concerned at the shifting of previously outlined target implementation dates for accrual accounting for dividends and treatment of carve-outs. We believe that this slippage: sets a dangerous precedent; may disadvantage the firms who have made the effort to move into line with the guidance; sends a bad signal to users of composite data; and may signal further intention to revise the future implementation date for daily valuation at point of cash flow.

Additionally, we strongly disagree with the abolition of the legal entity Firm definition. Global firms, that have long been in compliance using this definition, are now being unfairly penalised because one of the original building blocks advocated by GIPS is now being outlawed.

- **Do you agree with the proposed numbering and format of the proposed revised GIPS standards?**

Yes

- **Should AIMR consider any other methods for meeting the objectives of evolving the GIPS standards?**

No comment

Specific Comments

- **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, provided such a composite exists. Specialist mandates may not always have a compliant presentation and supplemental information should be permitted in these cases.

- **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?**

We do not believe so. Compliant firms should have tight procedural controls to back up their claim of compliance, and the existence of an up-to-date composite listing should be a core feature of that control environment. The provision of that list to prospective clients is a natural extension of the compliance claim.

- **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 composites minimum asset size?**

We feel that this recommendation is overly restrictive, and not based on the realities of managing a business. A distinction has to be made between the composites minimum asset size and the eligibility of any client to have their assets managed in that style. If the manager can manage prospective clients' assets in the style dictated by the composite, then the return record should be capable of being used as part of the marketing process. Suitable disclosure as to the minimum asset size of the composite should of course be made. The return record of the composite may be the only record available to the manager to prove his ability in managing monies in the preferred style of the prospective client.

- **Do you agree with the new requirement that mandates firms to be prepared to provide a compliant presentation for any composite on the firms list of composites to a prospective client that makes such a request?**

In principle we have no objection to this requirement. The recommendation may however open the door to a plethora of frivolous requests for data, including possibly other asset management firms seeking market intelligence on competitor return records. Would a firm fall out of compliance with the standards if he refused a request on the grounds of suspicion about the intent of the request?

- **Do you agree with the new requirement that requires firms to calculate composite performance by asset-weighting portfolio returns at least monthly (beginning 2005)?**

We have no issue with this new requirement, but believe that it may require clarification with regards to the guidance on direct real-estate/property investments where assets are valued quarterly or even annually.

- **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?**

We believe that there are many firms currently claiming compliance that shied away from developing carve-outs on the basis that the treatment of carve-outs would change in 2005. There are a number of firms in Ireland in that situation. The shift in date makes that decision a bad one!

We are uncomfortable generally about the shift of any date from the original standard. This does not reflect well on the readiness of the industry generally to meet well-documented deadlines flagged in the original standards over five years ago. There is a significant target date within the original standard (2010 for daily valuation at point of cash flow) that remains in place. Given the significant investment in technology that may be required to meet that requirement the industry needs to be assured that this deadline will be met. The evidence of slippage in target dates for carve-outs and accrual accounting (both easier 'wins' than the requirement for daily valuation) does not offer comfort in that regard.

- **Is it reasonable for the GIPS standards to require firms beginning 2010 to value portfolios on the date of any external cash flow?**

In principle we would agree with the objective as set out in the standard. We believe however that the market would be served best by the issuance of some significant guidance on this particular requirement. Section 2.A.4 sets out the weighting methodology for calculating a composite. It fails to follow through on the methodology requirements where a number of portfolios within the composite have sub-period returns generated by the 2010 requirement to value at point of cash flow and others that have no cash flows. Many composite calculation systems require common return periods within the composite. This will lead many managers to the point where all accounts will have to be calculated for daily returns regardless of the instance of cash flows or not.

- **Should the GIPS standards require firms to retroactively disclose the following when carve-out segments are used?**

- (a) a list of the underlying composites from which the carve-out is drawn
- (b) the percentage of the composite that is composed of carve-outs.

We would be in favour of any disclosure that clarifies the use of carve-outs in composite return histories. We would note that carve-outs are very often taken from representative accounts rather than underlying composites. Disclosures should reflect this accordingly.

Additional Comments

The Irish cvg places some additional requirements of domestic managers to meet compliance with the standards. Of particular note, and one that we would like to recommend to the Country Standards Sub-Committee, relates to the introduction of the Euro and the implications for same on the presentation of historic performance data that spans the effective date of the introduction of the Euro to the local market-place. The provision reads as follows:

5.B.3 Portfolio performances, which were validly comparable before EMU, should remain retrospectively comparable afterwards. Such comparisons should preserve rank ordering and proportionality among portfolio returns. Portfolio performances that were not validly comparable before EMU cannot become retrospectively comparable by virtue of the creation of the Euro.

If a firm wishes to see historical values converted to Euro at the fixed exchange rate for the local currency at the Euro conversion date, any history so converted must not be described as being in Euro. The correct wording to be disclosed is for example "Irish Punts expressed as Euro".

The clause numbering relates to its particular positioning within the GIPS standard within Section 5 Presentation and Reporting. Note that this is currently a recommendation within the Irish cvg and was therefore placed as an italicised insert within Section 5.B of the GIPS standard.

The European IPC has issued guidance on this issue, and the above provision is in accordance with this guidance. This document offers useful guidance on the comparability of performance data when converted to Euro from differing domestic currencies. We believe that it is important that this 'European' issue is recognised within the global standard. The expansion of the European Union over the coming years will undoubtedly in time create a wider membership of the Euro. Conversion of historic performance records into Euro and the comparability of these records to similar composites/strategies across member countries will be a big issue when selling cross-borders within the Euro zone. This needs to be addressed within the global standards, possibly by means of an appendix designed for use by Euro zone resident firms.

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