

Submission to CFA Institute

RESPONSE TO THE PROPOSED GUIDANCE STATEMENT ON THE USE OF LEVERAGE AND DERIVATIVES

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 agree with the principles established in the Guidance Statement?**

Yes. This statement is a welcome revision of the previously circulated statement on the use of leverage and derivatives. The new guidance statement offers sufficient latitude in its use of the term 'materially employ...' to allow the firm to decide on which portfolios fall under the remit of the guidance statement within the scope of a firm's own ex-ante leverage policy.

- **Are there other elements involved in the use of leverage and derivatives that are not included?**

The use of examples within the statement is very good. We note that no guidance is given on the calculation methodology of Value at Risk (VaR) at account level within Appendix C, and we welcome this to the extent that it is left to the firm to compute this, subject to proper disclosure. We note that composite VaR is derived from a weighted average of the account-level VaR's. There is no explicit statement as to which market values are used (start period or end period). The statement could perhaps benefit from guidance on this issue.

- **Do you agree with the guiding principles provided to firms employing leverage and/or derivatives?**

Yes.

- **Do you agree with the proposed Effective Date?**

Yes.

Yours sincerely,

Joe Kavanagh, CFA
Chair – GIPS Ireland Committee