

The CFA Institute
Professional Standards and Advocacy Department
PO Box 3668
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30 July 2004

Comment on the Gold GIPS Standards

Dear Sir

Thank you for affording us the opportunity to respond to the proposed Gold GIPS Standards. We are privileged to be part of the evolution of these global standards.

General Comments

1. Do you support AIMR's effort to revise and expand the GIPS standards?

Yes, the Investment Management Association of South Africa (IMASA) fully supports the CFA Institute's efforts to continuously develop the GIPS Standards. IMASA considers the education of investors and their advisors to be an important part of the acceptance and evolution of the standards and has undertaken to begin this process in South Africa.

2. Do you agree with the evolution process for the GIPS standards as outlined above?

Yes. IMASA supports the process of having interim dates for the implementation of various guidelines, etc that will ultimately lead the achieving an end result. We do not, however, support the postponement of requirements that have long been pending, e.g. accrual accounting for dividends. We are concerned that firms will not be motivated to act in sufficient time on certain matters that are anticipated to become requirements in the future as there may be a perception that the IPC will "give in" to those who will not be able to meet the requirements by the initial dates. Those who do take the necessary steps in time consider themselves to have incurred additional unnecessary expense.

3. Is the language of the Standards straightforward and comprehensible? If not, how can it be improved?

Yes. The Interpretations Sub-Committee should continue its work to ensure consistent interpretation and application of the principles globally and we expect that Guidance Statements will continue being developed.

4. What modifications, if any, should be made to this proposal?

Please refer to item 9 under "Specific Comments" below.

5. Do you agree with the numbering and format of the proposed revised GIPS standards?

Yes

6. Should AIMR consider any other methods for meeting the objectives of evolving the GIPS standards?

Other than the postponement of certain requirements, IMASA supports the CFA Institute's methodology for evolving the GIPS standards.

Specific Comments

1. 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?

We do not consider this to be too onerous a requirement, although we do consider a definition of the term "Prospective client" to be important. We assume that the investment manager has discretion as to who "prospective clients" are and at what stage they become "prospective clients". As FC.A.3 is currently drafted, a firm may not be in a position to know exactly who their prospective clients are at any point in time. We believe that more clarity is required on this point.

There are also circumstances in which there is no compliant presentation, for example when new products are developed. We suggest that it would be appropriate to modify FC.A.3 to include "should an appropriate composite exist in a firm" before, "...i.e. the firm cannot choose"

2. 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?

No. A list and description of composites should be freely available to all interested parties, and not limited to prospective clients. The current requirement in 4.A.3. to disclose the availability of a complete list and description of composites is meaningless unless firms are required to provide the information on request.

3. 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 composite's minimum asset level?

Although there has been some debate about this recommendation, we agree with the principle. A prospective client may indeed have assets more than the minimum asset level, but may give the manager less than the minimum to invest. In order to prevent any client concerns about not being included in a composite when they expected to be, minimum asset levels should be clearly explained.

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

We believe this to be reasonable on the basis that it is as a result of a request, subject to our response to question 1 of the "Specific Comments".

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

Yes, IMASA agrees with this requirement.

6. 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 refer to our comment under Point 2 of the General Comments above. In principle, we do not support postponing requirements that have been anticipated for many years. Few managers in the South African market use carve-outs, so there will be little effect on us. The more serious implication is a perceived weakness in the IPC. We refer to our response to the second question under "General Comments"

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

We believe that it reasonable to require firms to value portfolios at the time of external cash flows because it will facilitate improved performance calculations. We are concerned that not all instruments in a portfolio are valued daily, for example an investment in a hedge fund and some collective investments. In these cases, we suggest that the prices for those instruments be the latest available prices. In addition, we suggest that “any” be replaced with “significant” as we believe that only significant cash flows will have a material effect on the performance calculations.

8. 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 was drawn, and
(b) the percentage of the composite that is composed of carve-outs.*

We have little experience with the use of carve-outs and consequently consider it more appropriate for others to comment.

9. Other issues

1. We support the requirement that verification will be mandatory effective 1 January 2010 as we believe that verification adds credibility to the claim of compliance. GIPS(SA) already includes verification as a requirement and all compliant South African firms have been verified. Verification should be an annual event. We do not, however, support the possibility that this requirement may be re-visited at a later date, as is suggested in the last paragraph of the introduction to verification, i.e. “.... a reassessment will be performed to ensure the effective date of 1 January 2010 is still appropriate in light of market conditions.”
2. FC.A.22 requires the firm to disclose any discretionary use of sub-advisors. We consider that a standard disclosure that sub-advisors may be used to be sufficient. Clarification on this point may be required and a definition of “sub-advisors” in the glossary should be considered.
3. We are concerned about the disclosure of fee schedules as fees are negotiated between individual clients and the investment managers. We consider gross of fees performance to be satisfactory, subject to a requirement for disclosure of that fact only.
4. We assume the additions of real estate, private equity and venture capital, fees are effective 1 January 2006.

Yours faithfully

Carl de Wet
Chairman
Investment Management Association of South Africa
GIPS Standing Committee