

CFA Institute  
Professional Standards & Advocacy Department  
Ref: 'Gold' GIPS  
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## Comments on 'Gold' GIPS Performance Standards

Please find enclosed Investit's response to the 'Gold GIPS proposals.

## Proposed Revisions to GIPS Standards

### Deleted Provisions

- **Definition of the Firm-** we feel that the definition remaining is the most appropriate and agree with the proposed deletions.
- **Removal of total firm assets disclosure-** we do not see that removal of this disclosure is necessary. Although the information may be '*easily derived*', the goal is to assist the end client on their interpretation of what is being presented to them. Removal of this disclosure is simply unnecessary.

### New Provisions and Specific Comments

- **Monthly asset-weight composite from 2005-** we agree with this new provision.
- **Calendar month-end valuation from 2006-** we agree with this provision, however, the 'calendar month end' wording needs to be clarified with a focus more on last business day.
- **Mandatory Verification from 2010-** in principle we agree with this approach but feel it needs further debate. A number of industry voices have raised concerns that the associated costs would be too extensive for some firms because of ongoing verification. We would argue that perhaps then the issue lies with the fees that the verification firms charge; there has been a growing dissatisfaction with some verification firms both in the quality of work, the experience of staff sent out to complete the actual verification and the related costs.

We feel it is time that the IPC reviewed the current crop of verifiers and ascertained whether they have the appropriate resources in place to continue offering a verification service, are charging appropriate fees for what should be a reasonably straight forward task and are carrying out their verification in a reasonable manner.

Perhaps it is time to verify the verifiers.

We also feel that the potential trend towards outsourced performance measurement could and should have serious implications for verifying firms. Outsourcing of performance measurement, whatever that implies, could mean a situation whereby the performance measurement calculations are independent of the investment firm; if this is the case then why can't the compliance (and ultimately verification) of GIPS procedures and composites be carried out by same independent source and relieve the need for additional third-party verifiers?

We are not proposing that this situation would become the norm, we are simply proposing that the current verification process in general needs reviewed to ensure complacency does not set in and the investment firm and client are getting the most efficient and cost effective support from the verifier.

- **Valuation of portfolios from 2010 on date of any external cash flow-** although this requirement does seem reasonable at first glance, we find it slightly odd that a requirement of this kind can be expected in 2010 when the current, less data and system intensive, requirement to show accrual dividend accounting is being proposed as a delay until 2010 to '*allow firms to upgrade systems*'. Are the IPC really convinced that investment firms will be in a position to meet this requirement? Perhaps, the IPC should investigate this in far more detail before implementing as a requirement. We are also certainly not of the opinion that the perceived increase in accuracy will always come to fruition or will outweigh the relative costs of implementing this requirement.
- **Provision of compliant presentation to all prospective clients-** we feel that this is in the best interest of all parties involved, however, would question how this could be verified in markets where mandatory verification is a requirement.
- **Provision of list and description of composites to any prospect-** we feel that this is in best of interest of all parties involved.
- **Must have written policies and procedures used for compliance-** we would always recommend firms do this.
- **Disclose calculation methods and valuation sources upon request / use of sub-advisory/description of investment objectives -** can't see why any firm would not agree to any of these.

#### **Modified Provisions**

- **Trade Date accounting from 2005-** yes.
- **Disclosure of fee schedules / events that help client interpret performance-** yes.

#### **Target Effective Dates Moved**

- **Accrual accounting of dividends from 2005 to 2010-** it is extremely disappointing, whether material or not in its impact, that the IPC has decided to extend specific dates such as this. In the UK, notional standards for showing dividend income on this basis have been in place since well before the inception of GIPS; we find it slightly strange the need for this change at this time in the development of GIPS.
- **Carve Outs with their own cash from 2005 to 2010-** again; the decision to extend this date now is extremely disappointing. Will we get to 2008 and there will be further extensions to 2015, 2020? The industry has known about this for a significant period of time; the implications of this are far more reaching than dividend accrual accounting and we strongly recommend that the original date is reinstated.

#### **General Feedback and Other Points**

- **GIPS 'Get Back to the Basics'**- we are firmly of the belief that there is still too much time spent by various IPC bodies in determining the detail on the standards and not enough time actually marketing the standards aggressively with the direct client; the person it is meant to benefit most. We are strong supporters of overall GIPS objectives, but feel they will not be met unless there is a shift in focus for a defined period of time.

- **1. A.8. Firm must value portfolios as of calendar month-end-** the working here is ambiguous and should makes a stronger reference to last business day. Also, for a firm that includes institutional and retail portfolios in single composites, issues with differences in timing of valuations (close of day versus mid day) are still significant and need to be taken into account.

We would like to thank you for the opportunity of providing this feedback.

Yours faithfully

Jim Trotter  
Principal