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Association for Investment Management and Research
Professional Standards and Advocacy Department
Reference: "Gold" GIPS Standards
P.O. Box 3668
Charlottesville,
Virginia 22903
U.S.A.

29th July, 2004

Dear Sirs,

Re: "Gold" GIPS – Invitation to Comment

K & D D Consulting Limited provides performance measurement consultancy services to the U.K. Investment Management industry and specialises in the area of performance presentation standards. In the pages that follow we offer our comments on the draft "Gold" GIPS Standards. These comments are based on the version of the Standards that was downloaded from the AIMR website in May, 2004. This date is mentioned as we noted that, somewhat unhelpfully, different versions of the draft were posted on this website in previous months. Should any of these comments require clarification, please contact Keith Dudley on:

Tel: (+44) 1825 873561
Email: K&DD@whitesmithpaddocks.freeserve.co.uk

Yours faithfully,

Keith Dudley

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GENERAL COMMENTS

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

The revision of the standards to provide greater clarity is welcomed.

We strongly recommend that the introduction of the "Gold" GIPS standards be used as an opportunity to remove the various 'Country Version of GIPS' (CVGs) that are in existence. The CVGs add confusion, act as a barrier to trade and undermine the goal of a truly global standard. Indeed, it is difficult to see that GIPS can be considered a success whilst CVGs remain, since their existence runs contrary to both the Vision Statement and Objectives stated in the Introduction section of GIPS.

Caution is urged with regard to expanding the scope of the standards into 'non-core' areas such as attribution analysis. Efforts should be and remain focussed on ensuring universal take up, acceptance and understanding of the 'core' standards before consideration is given to addressing whether such areas should be tackled.

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

Yes.

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

Specific comments on the drafting are provided below.

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

Specific comments on the drafting are provided below.

We recommend that guidance be included for firms on what information, and in what form, they are required/recommended to provide to prospective clients where they are pitching for business for which they do not have an existing track record. (And, by extension, are therefore unable to provide a compliant presentation.) Existing drafting implies that a firm can only pitch for business where it has an existing track record – precluding it from bringing new products to the market place.

The Sample Presentation for the 'Balanced Composite' in Appendix A needs to be reviewed. It contains out of date references, typing errors and fails to include the required disclosure for requirement 4.A.21. We would suggest that when re-drafting the Sample it be constructed in such a way that examples are provided for all disclosure and presentation requirements. This would be a useful aid for those seeking to implement the Standards.

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?

Efforts to encourage greater participation by the client and consultant community should be enhanced and extended to ensure both that the Standards incorporate client requirements and that the end beneficiaries of the Standards understand the goal. (There are still too many instances of clients/consultants asking questions which demonstrate a lack of understanding of the standards.) AIMR/IPC is asked to comment on what action is planned in respect of ensuring client awareness/education.

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For as long CVGs continue to exist, space on the Standards web-site should be allocated to maintaining a list of the various CVG specific requirements that are additional or different to 'core' GIPS.

AIMR/IPC should consider establishing a telephone/email question line that is able to facilitate the faster turnaround (than the current routes available) of queries raised by Standards users regarding interpretation and best-practice.

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 broadly welcome the inclusion of this requirement but believe that guidance/clarity is needed to cover a number of scenarios including;

- What action should be taken when an intermediary (such as a consultant) is involved? Does the provision of a compliant presentation to the intermediary complete the firm's obligations?
- Where the firm is selling only a single pooled vehicle (either because legal requirements mean this is the only product he can sell the prospect, or because the prospect has asked specifically about the single pooled vehicle), should the firm still provide a compliant presentation for the relevant composite which (may) contain other funds as well as the vehicle concerned – which may lead to unnecessary confusion. This scenario is typical in the retail environment.

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?

In the spirit of full disclosure, this requirement is welcomed.

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?

In the spirit of GIPS, a firm should provide a compliant presentation for the composite that is most appropriate to meet the exact requirement of the prospective client. However, where the firm does not have an existing track record that meets this requirement, it seems reasonable to allow the firm to present the (compliant) track record for a composite that is similar (e.g. is similar except for the minimum asset size) provided it is accompanied by relevant disclosure(s) making the asset size restriction clear. This is an example of the issue mentioned in point 4. of the General Comments above regarding guidance/clarification requested on what firms should do when they wish to pitch for business for which they do not have an existing track record.

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?

Yes, although it should be recognised that this will not always be immediately available.

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)?

In general we agree with the new requirement. However, we foresee that this may present difficulties for those firms that wish to include their Private Client businesses within the definition of the firm, where the frequency of valuation is often much less than monthly.

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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?

Our view has always been that the inclusion of carve-out returns should not be permitted as they cause confusion and are open to selectivity and abuse. (They could however, be provided as Supplemental Information.) If they are to be included at all in a compliant presentation, we believe that this should be on the basis of separately managed cash from 1.1.2005 (as clearly stated in 3.A.7. of the original GIPS standard) and the rules regarding their use should be tightened.

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

The situation should be monitored ongoing to assess technology developments and this date be seen as a target - recognising that commercial pressures may mean that it needs to be extended.

In any event, there should be clarity over what is meant by “any” external cashflow. It would perhaps be unreasonable to revalue for the contribution of a few pounds to a multi-million pound portfolio. Firms should be required to document and follow a policy regarding revaluation which is set at a reasonable level.

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.

The value of disclosure (a) is not clear. Our view is that the disclosures required when carve-outs are used should be more onerous, drawing potential investors’ attention to the limitations of carve-out returns.

OTHER COMMENTS

Compliance – 14. e. This point deals with verification becoming mandatory effective 1 January 2010. Our view is that market pressure should be left to determine whether verification becomes the norm. Verification can be encouraged by AIMR/IPC pursuing an education policy aimed particularly at end clients which extols the benefits of verification.

Compliance – 16. This point deals with the use of third-party performance measurement and composite construction. We suggest that for clarity, the wording in the last sentence be changed to read ‘Similarly, where the practice is to allow third parties to construct composites for investment firms, firms can use such composites in a GIPS-compliant presentation only if the composite *and the underlying composite constituent portfolio returns have been calculated and constructed in compliance with GIPS.*’

Compliance – 26 & 30. Clarification is required here. 30 implies that where a country already has an industry standard for performance presentation (which might reasonably include a CVG), the firm is **required** to comply with the local requirement. 26 implies that that a GIPS compliant firm does not need to meet the GIPS CVG additional requirements in order to be considered alongside a firm who complies with the local CVG.

FC.A.3. – Superscript 1 refers to pooled unitized vehicles not being subject to this requirement when compliant firms are advertising performance solely for these products. Clarity is required over what is meant by advertising in this context. If such a product is being sold in a one-on-one situation, either because this is the most appropriate product for the investor, it is legally the only product the investor can buy, or because the investor has specifically enquired about an individual pooled vehicle, is a compliant presentation required. (This relates to our earlier comment in Specific Comments 1. above – where the provision of a compliant composite presentation, where the composite may contain portfolios other than the pooled vehicle, is likely to lead to confusion for the potential investor.) **We believe that the issue of**

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marketing and selling of pooled vehicles for compliant firms is extremely important and has not been adequately dealt with in either the drafting here nor in the Advertising Standards, and ask AIMR/IPC to ensure this issue is addressed.

- It is not clear from the drafting what is meant by 'interim performance information'. For instance, can this be interim information on the composite only or any product or fund?

FC.A.5. – What are the implications of this for firms whose products are sold through third-party distributors?

FC.A.14. – We believe that this point should be removed as it has the potential to confuse.

1.A.7. – We believe that the wording of this requirement needs to be re-drafted to provide clarity.

1.A.8. – We believe the wording should allow for portfolios to be valued either as of the calendar month end **or** on the last relevant business day of the month.

2.A.7. – We believe that this requirement is more appropriate in section 3. - Composite Construction.

2.A.8. – For completeness, we believe the wording should be extended to include a further sentence – '*For periods prior to this date, the firm must calculate composite performance by weighting the member portfolio returns at least quarterly.*' (This will accord with 1.A.3.)

2.B.3. – This recommendation, which states that 'If the firm **chooses** to adjust for the treatment of significant cashflows....' appears to contradict requirement 2.A.2. which states that returns **must** be adjusted for cashflows.

3.A.1. – We recommend that the following additional wording (or similar) be added to the end of this point. '*No portfolio should be included in more than one composite at the same point in time.*' This should serve to highlight that a portfolio cannot be following more than one strategy at any given point in time.

3.A.7. – Refer to comments in Specific Comments point 6. above.

4.A.5. – We suggest that the final sentence in this point 'The firm should not market a composite to a prospective client with assets less than the composite's minimum asset level.' would be more appropriate in section 5. – Presentation and Reporting.

4.A.7. – Superscript 1 is used in this point but superscript 3 is at the bottom of the page. This looks like a typing error.

4.A.10. – For clarity, we suggest that the wording be re-drafted to 'For composites *representing strategies* managed against a *particular* benchmark, the firm must disclose the percentage of the composite's *assets* invested in countries.....'

4.A.28. – We suggest that this point should be merged in with 4.A.3.

5.A.5. – We suggest that the word 'composites' in this point be replaced with 'assets'.

END