

Professional Standards and Advocacy  
Association for Investment Management and Research  
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Re: GIPS Guidance Statement  
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Oslo, 2002.10.09

**INVITATION TO COMMENT:  
Global Investment Performance Standards (GIPS®) Guidance Statement on  
Calculation Methodology**

Dear Sir or Madame,

We would like to thank you for the opportunity to make comments on the Guidance Statement on Calculation Methodology. The Norwegian Society of Financial Analysts (Norske Finansanalytikeres Forening, hereafter-named NFF), is the sponsor for GIPS® in Norway. Norsk GIPS as a Translation of GIPS® was endorsed by IPC at the September meeting 2001.

Our comments to IPC are as follows:

- **IPC: Do you agree with the principles established in the Guidance Statement?**

**NFF:**

➤ Yes, we do.

- **IPC: Are all areas of rate of return and asset-weighted composite calculation sufficiently covered in this Guidance Statement?**

**NFF:**

➤ The methods described are sufficient to calculate portfolio and composite return.

➤ The Guidance Statement regards the Modified Dietz formula as a Time Weighted Rate of return (TWRR) formula that adjusts for daily-weighted cash flows (page 5).

Both the Original Dietz and Modified Dietz are Money Weighted rate of return (MWRR) formulas that are used for sub-periods. The sub-periods are thereafter chain linked to a TWRR return.

In order to avoid confusion, the Guidance Statement should be amended, so that all formulas from page 4 to 6 are named MWRR formulas. The differences between MWRR and TWRR should be elaborated and explained as an introduction to the Guidance Statement.

- The examples in the Guidance Statement covering asset weighted composite return calculation rely on a MWRR approach to return calculations (Modified Dietz).  
We would welcome an example that uses all assets and cash flows as if the composite were one “master portfolio”. Portfolios 1 and 2 in the application to the Guidance Statement have the sufficient data to calculate an aggregated return based on a TWRR approach.
- The recommendation in GIPS is to calculate composite return before Investment Management fees, so called Gross-of fees return.  
By classifying the Investment Management fee as an external cash flow it is possible to calculate Gross-of fees returns by all the formulas in the proposed Guidance Statement. In order to avoid confusion, and to emphasise the Gross-of fees return recommendation, one idea could be to rewrite the definition of a cash flow, as “A cash flow is an external flow of cash and / or the investment management fee when calculating Gross-of fees return”.

With this reformulation the formulas will be universal, covering both Net and Gross-of fees calculations.

- **IPC: Are there other areas of calculation methodology that should be addressed in this Guidance Statement?**

**NFF:**

- According to the Executive Summary “This Guidance Statement provides clarification on the various methodologies for calculating rates of return and asset-weighted portfolio returns to calculate composite return”.

We believe IPC’s request is whether other calculations than return calculation should be included in this Guidance Statement, and also if other areas of return calculation should be addressed in this Guidance Statement.

- The recently launched Global Investment Performance Standards Handbook includes some return calculation formulas that is not covered in this Guidance Statement. We believe this Guidance Statement should include all return calculation formulas in the Handbook.  
One formula that is not covered in this Guidance Statement is equally weighted composite return, Standard 5.B.1 (c).
- The GIPS Standards include both requirements and recommendations. We believe not only required calculations should be included in the Guidance Statement.  
The minimum requirements in GIPS may in some situations not be sufficient;

**GIPS Introduction 10.h.** GIPS should be applied with the goal of full disclosure and fair representation of investment performance. Meeting the objective of full and fair disclosure is likely to require more than compliance with the minimum requirements of GIPS.

Additional calculations that could be covered by this Guidance Statement are:

- How to annualize Cumulative Returns, GIPS 5.A.3
  - Formulas for calculating dispersion numbers are included in the GIPS handbook. We believe dispersion calculation should be a part of this Guidance Statement also.
    - In the Handbook the reader is only introduced to standard deviation with equally weighted composite calculation. We believe the intention in the Handbook was to introduce the reader to the asset weighted standard deviation also, but that this calculation has been omitted.
  - Mutual Funds and Pooled Funds face problems when transforming their NAV (Net Asset Value) returns into gross-of fees returns. In order to avoid inconsistency when transforming net-of fees return to gross-of fees return, we recommend that this Guidance Statement provides the industry with a “transformation formula”.
  - Transforming gross-of fees return into net-of fees return using the highest investment management fee should be covered, with reference to The Addition of Fees Provisions and Guidance to the GIPS Standards.  
This formula is equal to the “transformation formula” above, except that the investment management fee has the opposite sign.
- **IPC: Is it reasonable to expect that firms will be able to value portfolios at the time of any external cash flow beginning 1. January 2010 (excluding real estate, venture capital and private equity)?**

**NFF:**

- If the word “time” is synonymous to day we believe it is feasible.

Continuous pricing of portfolios during the day will be a problem, if time is to be interpreted as at the time of the cash flow, for example 12.34 CET.

Continuous pricing of positions that is not possible to reconcile, is not to be recommended by the GIPS Standards, refer to Standards 1.A.1.  
Even with future technical improvements, problems related to example corporate actions remain. We believe that a lot of portfolio accounting also in the future will be handled manually during the day (at least approving transactions and alterations of transactions).

We therefore recommend that day is the time unit in the GIPS standards, beginning 2010.

- Beginning 2005, the investment manager is required to use trade day accounting and accrual accounting for dividends. This principle should also be applied to the cash-flow when calculating portfolio returns after 2005. If the cash-flow is not accounted for on the trade-date, the portfolio will be geared or levered if the cash-flow is based on the settlement day. We believe the accounting principles for cash-flows should be covered in the Guidance Statement.
- **IPC: Do you agree with the proposed Effective Date? If not, when should the guidance become effective?**

**NFF:**

- Yes, we agree with the effective date 1 April 2003.

**NFF: Our additional comment to the Guidance Statement on Calculation Methodology is;**

According to the Executive Summary, “This Guidance Statement provides clarification on the various methodologies for calculating rates of return and asset-weighted portfolio returns to calculate composite return”.

We believe the expression asset-weighted portfolio return may be confusing. It is the composite return that is asset-weighted, and not the individual portfolio return.

An alternative is to write “This Guidance Statement provides clarification on the various methodologies for calculating portfolio and composite returns”, refer to our suggestion that equally weighted composite return, and not only asset-weighted composite return, should be included in the Guidance Statement.

We thank you for giving us the opportunity to comment on the proposed Guidance Statement to GIPS and we hope that our comments will be taken into consideration.

Best regards,  
The Norwegian Society of Financial Analysts (NFF)

Gunnar Winther  
Secretary General