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Re: Invitation to Comment on "Gold GIPS"

Dear Members of the Investment Performance Council,

I would like to thank the IPC for the opportunity to comment on the proposed revision to GIPS ("Gold GIPS").

I fully support the effort to revise and expand the GIPS standards. In our dynamic financial environment standards need to be updated or they will become irrelevant. Although I have a few comments listed below, overall this sizable update to GIPS should go a long way towards achieving the goal of one international set of standards.

The CFA Institute (AIMR) sought comment on specific areas:

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 standards?* **Response:** This requirement is not too onerous. Without such a requirement a firm can comply with the standards on an opportunistic basis. Providing a compliant presentation to each potential client is the only way to assure that comparability. This is the most important proposed improvement to the GIPS standards.
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?* **Response:** This requirement is not too onerous. It should be a small matter for a firm in compliance to provide such a list.
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?* **Response:** Yes, the rationale for allowing composites to exclude accounts below a minimum asset level is that portfolios below that level have insufficient assets for the firm to effectively implement its investment process. On that basis, using that composite to market to potential clients with portfolios below the asset threshold would, in my view, be misleading.
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?* **Response:** Yes, firms should be prepared to answer such a request in a reasonable period of time.
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)?* **Response:** While the increase in accuracy is small, the effort to move from quarterly to monthly is also modest. This is worth requiring for uniformity of calculation.
6. *Do you agree that the effective date should be moved from 2005 to 2010 for the requirement that stipulates a carve-out be managed separately with its own cash balances?* **Response:** Yes, some of the industry's systems do not yet have the functionality to allow cash balances for sub-portfolios.
7. *Is it reasonable for the GIPS standards to require firms beginning 2010 to value portfolios on the date of any external cash flow?* **Response:** This is reasonable for equities and other assets

for which a price is readily available. For some assets this requirement may be costly. It is too soon to tell how onerous this requirement would be.

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.* **Response:** I am not in favor of these footnotes as they are not likely to be useful to prospective clients. To be of use, prospective clients will need more information than these footnotes will provide. For example, if a composite consists of the equity half of a balanced composite the number will be close to 50%. As another example, if the carve-outs consist of the non-U.S. portion of a global portfolio then the percentage coverage will be higher although most investors would agree that the former is likely to be more representative than the latter. That said, I feel the firm, upon a prospective client's request, should be required to provide such information.

In addition, I would like to address the following:

- Requirement for mandatory verification after 2010. I disagree with the proposed requirement. While I support verification, I think it is inappropriate to force verification on the industry. If prospective clients find verification useful they will require it and investment firms will quickly act. A campaign by the IPC to enlist the support of plan sponsors for verification might be a better way to accomplish the same goal. Forcing the industry to adopt costly verification at this time may slow the objective of adopting GIPS as a worldwide standard.
- Requirement to disclose any events which help a prospective client interpret the performance record. This requirement is far too vague. There is no way to know what event passes that threshold and how much disclosure would satisfy this requirement. Also, I am not sure what is meant by "significant deviations between annual and interim performance results". Unless the requirement becomes much more specific, I believe this should remain a recommendation. Vague rules work against the objective to promote fair competition among firms.
- The requirement to use trade-date accounting may bar use of NAV-based mutual fund returns. Mutual fund market values are calculated using trade date plus one (one day lagged) transactions. The rule should be updated to specifically allow trade date plus one accounting. This requirement may slow the objective of adopting GIPS as a worldwide standard.

I would like to thank the Investment Performance Council for the opportunity to comment on the proposed alterations to GIPS. I believe proposed changes will go a long way towards achieving the goal of one unified standard for the global investment industry. I hope my comments are helpful for this process.

Regards,

Neil E. Riddles, CFA