

Association for Investment Management and Research
Professional Standards and Advocacy
P.O. Box 3668
Charlottesville, Virginia 22903
USA
Re: GIPS Guidance Statement

31 December 2002

Proposed GIPS Advertising Guidelines

Dear Sir / Madam

PricewaterhouseCoopers wishes to thank the Association for Investment Management and Research (AIMR) for this opportunity to comment on the Proposed Addition of Advertising Guidelines to the GIPS Standards (Guidance). We welcome the Guidance proposed by the Investment Performance Council (IPC) to clarify and address proper advertising regarding a firm's claim of compliance.

Our comments are provided in the attached appendix to this letter. If you wish to discuss these points further, please contact Kelvin Laing-Williams in London at +44 (20) 7804 1707 or Peter McNamara in New York at (646) 471 8743.

Yours sincerely,

PricewaterhouseCoopers AG



Thomas Huber



Dimitri Senik

Appendix: PwC Comments on the Proposed GIPS Advertising Guidelines

1. Do you support AIMR's effort to develop Advertising Guidelines to be added to the GIPS standards?

Yes, we fully support this. However, it would be helpful for Canadian and US firms if additional guidance and/or thoughts were presented by the IPC or AIMR with respect to how this Guidance will change the AIMR-PPS Advertising Guidelines. For example, will AIMR-PPS simply be conformed or are there certain additional provisions that will be included for regulatory purposes?

2. Do you agree with the proposed Effective Date of 1 May 2003?

Yes

3. Do you agree with the information and disclosures required in both of the scenarios (advertisements that include a claim of compliance and advertisements that include both a claim of compliance and performance results)? Should additional information be provided in an advertisement? Are there too many required disclosures?

We agree with the information and disclosures required for the advertising purposes. We would like to draw attention to the following matters that, in our opinion, should be considered:

- The proposed GIPS Advertising Guidelines contain a requirement that “information **must** be taken from a presentation that adheres to the requirements of the GIPS standards” (last paragraph on page 2 and page 5). This relates to such information as year-to-date returns, 1-, 3-, and 5-year annualised composite returns. Presentation of this information in compliant composite reports is, however, currently not mandatory, i.e. firms may not be able to take this information directly from compliant presentations and may have to derive it first. This needs clarification.
- The current wording with respect to presentation of 1-, 3- and 5-year annualised composite performance returns and 5 years of annual composite returns is that they “**should** be through the same period of time as presented in the corresponding compliant presentation”. Please clarify the meaning of “should”. Perhaps additional language should be added to say “unless local regulatory rules require the presentation of performance through a more recent period”. Country sponsors should be encouraged to come out with additional guidance as applicable for those areas of this Guidance that may conflict with local regulations.
- The current wording with respect to presentation of 1-, 3- and 5-year annualised returns also states that they are to be presented “since **firm** inception”. We believe this should be changed to “since **composite** inception” as the composite inception date may not be the same as the firm inception date. Please clarify the meaning of annualised period since inception. For example, in case of composite having only a 4-year performance

track record, would 1-, 3- and 4-year annualised returns be presented or simply a 4-year annualised return.

- Item 1 (pages 2 and 5) states that “a *description* of the firm” must be disclosed. We suggest that text be added to clarify what is meant by "description" and this clarification should indicate that the description of the firm must not be inconsistent with the definition of the firm.
- We regard to item 6, page 5 we suggest that the language be changed to say “Whether performance is shown gross and/or net of investment management fees” as some jurisdictions may not allow gross only returns. If both net and gross returns are presented, the net performance should be shown in greater or equal prominence than gross.
- With regard to presentation of the benchmark returns, we suggest to add that if a benchmark is presented in the compliant presentation, it must be presented in the advertisement, except for situations when benchmark data for the year-to-date period (if a year-to-date return is presented) is not available.
- A disclosure on “the use and extent of leverage and derivatives” needs further explanation and this elaboration should be consistent with the upcoming Guidance Statement on Derivatives and Leverage. We believe it would also be acceptable, in cases where leverage or derivatives is used, to refer to the GIPS compliant presentation which includes disclosure on the use and extent of leverage and derivatives.
- We suggest that you provide additional guidance regarding how firms can reference verification or Performance Examination in the advertisement.
- A sample / example of an advertisement and press-release in compliance with the Advertising Guidelines would be desirable as it is provided in the AIMR-PPS Advertising Guidelines. Consideration should also be made to including additional clarification on RFPs, “flash” reports, Internet etc. as included in the AIMR-PPS Advertising Guidelines because this is very useful guidance. We note that some of these clarifications might actually be better suited in a different section of GIPS to the extent they don’t directly relate to advertising. Lastly, we believe that it should be noted that simply including a complete compliant presentation on the web doesn’t require adherence to the GIPS Advertising Guidelines unless reference is made to GIPS compliance on the web outside of the compliant presentation. Firms should be cognizant, however, that there could be additional regulatory requirements as a result of posting their compliant presentation on the web.
- With regard to presentation of supplemental information, reference should be made to the upcoming Guidance Statement on the Use of Supplemental Information. In addition, you might state under what circumstances additional labelling may be required or not required. Lastly, we believe the proposed wording should be changed to say firms may present supplemental (additional) information instead of encouraging firms to provide such information. We note that it is still presently unclear what exactly supplemental information is.
- We note that the AIMR-PPS Advertising Guidelines had included a required disclosure regarding the percentage of non-fee-paying portfolios represented in the composite. We believe that additional disclosure should be required in the GIPS

Advertising Guidelines when the composite contains a significant portion of non-fee paying and/or proprietary portfolios. Significance would need to be defined in the Guidance.

4. At some point in the future, should the GIPS Advertising Guidelines be mandatory for all GIPS-compliant firms? In other words, should a GIPS-compliant firm be required to follow specific rules when advertising, regardless of whether the advertisement includes a claim of compliance?

This is a complicated area. When advertising, compliant firms should not be required to indicate that they are compliant in each advertisement. However, we believe that the IPC should address the question of whether a compliant firm can provide non-compliant information outside of the GIPS compliant presentation. This would include not only marketing materials but performance advertising as well. The use of non-compliant information in such a context may prove to diminish the value of the claim of compliance. More specifically with respect to advertising we recommend that the IPC consider whether adherence to specific rules regarding performance and disclosure information should be required when a compliant firm advertises composite performance and chooses not to make reference to GIPS compliance. The performance and disclosure requirements in the GIPS Advertising Guidelines would serve as an excellent starting point for discussion. We are mindful that there may also be existing local regulatory frameworks governing advertising and so this area should receive careful consideration from the IPC. Additional clarification may also be necessary when product performance is advertised. In some instances the product advertised may in fact be grouped with other accounts for GIPS compliance purposes and it may not be appropriate to expect a firm to advertise the composite performance given the target audience of the advertisement.

6. Other proposals

We believe that the Guidance should indicate the responsibilities of the verifier with respect to the application of this Guidance and whether these responsibilities depend on whether a verification or Performance Examination is conducted.