

The Security Analysts Association of Japan

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Investment Performance Council
c/o CFA Institute/CFA Centre for Financial Market Integrity
P.O. Box 3668
Charlottesville, Virginia 22903

Re: Guidance Statement on the Use of Leverage and Derivatives

Dear Sir/Madam,

Thank you for the opportunity to comment on the proposed Guidance Statement on the Use of Leverage and Derivatives.

The Security Analysts Association of Japan (SAAJ) is the sponsor of the SAAJ Investment Performance Standards (SAAJ-IPS[®]), the Japanese Version of GIPS. Following are our comments based on discussion within the SAAJ-IPS Committee, consisting of professionals from a wide range of the investment industry such as various kinds of asset managers, pension funds, consultants, and verifiers.

1. Do you agree with the principles established in the Guidance Statement?

We agree with the principles established in the Guidance Statement. Since each firm's definition of "leverage" will most likely be different, we support the concept that it should rest with each firm to create its own ex ante leverage policy as well as interpretation of "materiality" which is the basis for judging whether a strategy/composite is leveraged or not.

However, we believe that the Guidance Statement should clearly state that firms using a leveraged strategy/composite "must" create "leverage policy". We also believe that upon request by clients, such "leverage policy" should be disclosed.

2. Are there other elements involved in the use of leverage and derivatives that are not included?

It is preferable to create and give sample cases and applications (Q&A), which can be a reference for firms when interpreting "materiality" and drafting "leverage policy". For example, the following might be one case which could not be considered as the use of leverage and derivative strategy:

"In the case where currency hedging is effected in a global equity portfolio whose benchmark is MSCI World and derivatives are used simply for the purpose of

making minor adjustments for foreign currency exposure, such should not be treated as the use of derivatives.”

In sample cases and/or applications (Q&A), guidance on minimum disclosures should also be given.

3. Do you agree with the guiding principles provided to firms employing leverage and/or derivatives?

We basically agree with the guiding principles. However, we strongly recommend considering the following points:

- 1) Since “Tracking Error” as a risk measure is also applicable to areas other than leverage and derivatives, it should be considered that “Tracking Error” should also be incorporated in the general provisions of the GIPS standards.
- 2) It is mentioned that firms with overlay strategies should disclose overlay assets in addition to composite assets. When the exact amount of overlay assets cannot be determined, the estimated amount should be allowed.

4. Do you agree with the proposed Effective Date?

Yes, we agree with the proposed effective date of January 1 2006 (with no retroactive application).

Yours sincerely,

The Security Analysts Association of Japan