

The Security Analysts Association of Japan

5 F, Tokyo Stock Exchange Building, 2-1 Nihonbashi-Kabutocho, Chuo-ku, Tokyo 103-0026, Japan
Tel: 81-3-3666-1515 Fax: 81-3-3666-5845

December 29, 2004

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

Re: Guidance Statement on Wrap Fee/Separately Managed Account Performance

Dear Sir/Madam,

Thank you for the opportunity to comment on the proposed Guidance Statement on Wrap Fee/Separately Managed Account Performance.

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 as well as considering comments received from two firms providing/managing SMA products in the Japanese marketplace.

1. Do you support CFA Institute's effort to develop guidance for the calculation and presentation of wrap fee/SMA portfolios as outlined?

We recognize that it is worthwhile developing guidance for the application of the GIPS standards to new areas such as wrap fee/SMA products based on discussion within the IPC and its relevant subcommittees.

However, the proposed Guidance Statement has been developed by the AIMR-PPS Committee, not by the IPC's subcommittee, based only on practices in the U.S. marketplace, and therefore incorporates many "country specific" issues – which means that the Guidance Statement comprises American standards, not global ones.

We are very concerned that "country specific" issues (such as those specific to the U.S. wrap fee/SMA markets) might be treated as "global" ones in order to enforce convergence of CVGs to single GIPS standards so rapidly (i.e. effective 1 January 2006) and also that the purpose of the Guidance seems to help the SMA industry in the U.S. by softening GIPS requirements. Such may adversely affect practices in other local markets with different business circumstances (see note below).

Note: In Japan, deregulation effected in 2004 enables securities firms to enter the wrap account business but there are only three firms providing such services, two of which started business only a few months ago. Major business models for wrap fee/SMA products in Japan are different from typical ones in the U.S. and therefore overly prescriptive guidance reflecting U.S. markets would be difficult to understand and might cause confusion.

Accordingly, we urge that the pertinent IPC subcommittee carefully examines the Guidance Statement considering comments received during the public comment period and that a revised proposal be published by the IPC for the second public comment period.

In the process of revision, the Guidance Statement should be restructured and simplified to focus on common global key elements by reducing overly prescriptive rules reflecting the U.S. markets so that the Guidance Statement can be applicable on a global basis. In particular, we suggest the following points be taken into account:

- (1) Since wrap fee/SMA products feature various types/structures (structures other than those addressed in the Guidance Statement exist), common elements should be more clearly addressed:
 - wrap fees cannot be unbundled
 - types of costs included in wrap fees
 - what costs are included (i.e. reduced) in the presented performance results at the net-of-fee and gross-of-fee levels
 - portfolio types included in the composites
- (2) Some GIPS requirements for claiming compliance are softened in several sections (“Underlying Records”, “Establishing an Initial SMA Track Record”, “Maintaining Composites”, and “Presentation”). However, the treatments as outlined below are related to key elements of the GIPS standards and should not be permitted:
 - claiming compliance even though firms do not have supporting data for periods before 1 January 2006 – this would mean without a minimum five-year compliant performance record supported by data/information.
 - “simulated” (not “actual”) performance records using non-SMA portfolios being presented as “composite” performance and also linked to “actual” performance records.
- (3) Whether the “Definition of Firm” section is consistent with the Guidance Statement on Definition of the Firm.

The second choice (defining the non-SMA fee division as a firm) contains some possible issues (firms can show their non-SMA performance to prospective SMA clients of the SMA division as supplemental information) and hence it should be clearly indicated that easy adoption of it should be avoided.

- (4) Fundamental structures, types, and characteristics of performance results for wrap fee/SMA products should be explained instead of assuming only certain business models (such as a model with three parties: “SMA sponsor”, “SMA investment management firm”, and “end users”; in Japan there are cases where the same organization has both “sponsor” and “investment management” sections and accounts are managed by the in-house manager).

We are unfamiliar with the term of “SMA sponsor” and cannot understand the purpose and appropriateness of the creation of “sponsor-specific composite”. We do not think it necessary to provide overly prescriptive guidance in the global

standards such as:

- "..., the sponsor-specific composite may include the claim of compliance."
- "The investment management firm must reflect the name of the existing SMA sponsor in the sponsor-specific compliant presentation" (We cannot understand the reason why "must reflect the name".)
- "The investment management firm may claim compliance on this sponsor-specific presentation only if the investment management firm includes a prominent disclosure stating that the sponsor-specific composite is only for the use of the SMA sponsor."

2. Do you think firms will be able to meet the recordkeeping requirements as specified?

As already discussed above, softening the GIPS requirements of presenting a minimum five-year compliant performance record and of maintaining supporting data/information should be reconsidered by IPC.

It seems difficult to meet the recordkeeping requirements if the SMA sponsor and investment manager are different.

3. Do you agree with the proposed treatment for a "double hit" of transaction expenses (when creating a simulated wrap fee performance record)?

As already discussed above, the proposed practices that "simulated" performance record can be included in "composites" and be linked to "actual" performance record should be reconsidered by IPC.

If the presentation of "simulated" performance as supplemental information is permitted, firms should be required to disclose the fact of "double hit" and the range of actual transaction expenses.

4. Do you support the 1 January 2006 effective date for the proposed Guidance Statement for Wrap Fee/SMA Performance?

We do not support the 1 January 2006 effective date.

As mentioned above, the pertinent IPC subcommittee should carefully examine the Guidance Statement and a revised proposal should be published for the second public comment. Additional time is necessary for this process. Also, importantly, it seems difficult for wrap fee/SMA management firms to meet all requirements before the 1 January 2006 effective date due to system infrastructure.

Accordingly, the effective date should be postponed at least for one year.

5. Should the CFA Institute and the IPC consider any other methods for meeting the objectives of clarifying the application of the GIPS standards to wrap fee/SMA portfolios as set forth above?

Although we understand that there may be the needs of such detailed guidance for

the U.S. wrap fee/SMA industry, it should also be recognized that there is an impression that the proposed Guidance Statement overly helps the U.S. wrap fee/SMA industry. Accordingly, as already mentioned, we strongly suggest that the Guidance Statement should be restructured to make it global standards representing the best practices.

6. Do you agree with the application questions and responses provided?

The AIMR-PPS specific issues (that could be treated separately from the Guidance Statement for the GIPS standards) should be reduced as much as possible in all Applications so that the content can be more easily understood on a global basis.

Our comments on individual Applications are as follows:

Application 1

It should be dropped, as the treatment indicated in the answer should not be permitted.

Application 2

“a fee schedule that is appropriate to the composite” should read “a fee schedule that is appropriate to a presentation” in accordance with the revised GIPS standards.

Application 3

The answer should be reconsidered, as we do not think such treatment appropriate.

Application 4

The answer says “The firm should consider that it may not show performance from the SMA division (except as supplemental information to its institutional track record). Similarly, the non-SMA, GIPS-compliant firm track record cannot be shown to a prospective SMA client of the SMA division except as supplemental information to its institutional record.”

Supplemental information is defined as information that is disclosed as part of “compliant presentation” in the Guidance Statement on the Use of Supplemental Information. In the case of the situation described, it is inappropriate to make it permitted to show the institutional record to a prospective SMA client as supplemental information because:

- No compliant presentation exists for the SMA division.
- If only institutional track records were shown to a prospective SMA client, it would cause a significant problem, especially when there is a common investment management organization for both institutional and SMA divisions and the firm is aiming at new clients. If there is an SMA record, it should be presented to a prospective client, and allowing presentation of only a GIPS compliant “institutional track record” prohibited, because such would be very misleading.

Application 5

A note advising reference to the Guidance Statement on Portfolio Recordkeeping Requirements should be added.

Application 6

It should be dropped, as the treatment indicated in the answer should not be permitted.

Sincerely yours,

The Security Analysts Association of Japan