

# The Security Analysts Association of Japan

November 29, 2002

Association for Investment Management and Research  
Professional Standards and Advocacy Department  
P.O. Box 3668  
Charlottesville, Virginia 22903

Dear Sir/Madam,

## **Re: Proposed GIPS Guidance Statement on the Use of Supplemental Information**

The Security Analysts Association of Japan (SAAJ) is the sponsor of the SAAJ Investment Performance Standards (SAAJ-IPS<sup>®</sup>), the Japanese Version of GIPS, endorsed by IPC as a Country Version of GIPS (CVG) on June 25, 2002.

Following are our comments on the proposed GIPS Guidance Statement on the Use of Supplemental Information based on full discussion and thorough review by the SAAJ-IPS Committee consisting of professionals from a wide range of the investment industry such as asset managers, pension funds, consultants, verifiers, etc.

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

- We agree with establishing principles in the Guidance Statement such as the definition of supplemental information, the presentation and location of supplemental information, and the relation with verification.
- **However**, the proposed Guidance Statement does not sufficiently clarify and explain important elements on these points and may cause confusions to users. Therefore, the Guidance Statement should be modified and enhanced as below.

### **2. *Do you agree with the definition of Supplemental Information?***

#### **Definition of Supplemental Information**

- The definition proposed in the Guidance Statement is vague and too wide. We therefore **propose** that the definition should be **modified** as follows:

*Supplemental information is defined as any performance-related information that supplements or enhances disclosures required and recommended in the GIPS provisions and that is presented in a composite report. Supplemental information should provide users of the composite presentation with the proper context in which to better understand the*

*performance results.*

[Reasons]

- It is of concern that, as the proposed definition stands, any kind of information (even if not useful) could be included under supplemental information. Hence, it should be clearly stated in the definition that supplemental information should contribute to users' better understanding of the performance results presented in a composite report.
- Also, the description in the proposed definition to the effect that supplemental information does not include general information regarding the firm or the investment strategy or process is vague and may lead to the question of what information comprises general information – interpretations may vary by reader of this Guidance Statement. Instead, if it is stated in the definition that supplemental information is presented in a composite report, then supplemental information would clearly be distinguished from general information presented in a firm's publications such as marketing material, corporate brochure, annual report, etc.

#### **Type of Supplemental Information**

- We **propose** it should be explained in the Guidance Statement that there are two types of supplemental information in general as follows:
  - (1) **Compliant information**: supplemental information that is compliant with GIPS required and recommended provisions, and that, as far as it is deemed to be compliant, firms are encouraged to positively present such in a composite report.
  - (2) **Non-compliant information**: supplemental information that is non-compliant with GIPS required and recommended provisions but which firms are allowed to present as supplemental information in accordance with GIPS Guidance Statements. Firms may present such information as supplemental information when firms determine it would be useful and not misleading if the information is presented in a composite report.

As for examples of supplemental information, please see our comments indicated under item 3. Also, under item 3 below, we comment how supplemental information should be presented and located in a composite report depending on whether compliant or non-compliant.

### ***3. Do you agree with the examples of Supplemental Information provided?***

#### **Examples**

- As compliant and non-compliant information are mixed up in the examples listed in the Guidance Statement (p4), in order to avoid confusion, examples of compliant and non-compliant information should be distinguished. In addition,

as merely listing only information items is insufficient because what each item represents is unclear, explanations should be given with respect to individual items.

Note: “Model results”, “Carved-out returns excluding cash”, and “Representative client type returns” listed in the Guidance Statement as examples are deemed to be non-compliant.

### **Presentation and Location of Supplemental Information**

- We **propose** that the presentation and location of supplemental information should be distinguished depending on compliant or non-compliant as follows:

(1) **Compliant information:**

It is allowed to present supplemental information that is deemed compliant on the same page as where the relevant information (required or recommended by GIPS provisions) appears in a composite report. (In this case, it seems unnecessary to label such compliant information as supplemental.)

(2) **Non-compliant information:**

Any supplemental information that is deemed non-compliant should be placed on separate pages from those for required/recommended information and compliant supplemental information in a composite report (e.g. at the end of a composite report). It should be clearly indicated that the supplemental information is non-compliant information.

### **Application**

- Application 3 is confusing in relation to the definition of supplemental information (i.e. supplemental information is presented in a composite report) and therefore should be deleted.
4. ***Should Supplemental Information be excluded from GIPS verification? If not, how should Supplemental Information be verified?***
- Supplemental information should be excluded from GIPS verification. However, it is desirable to incorporate supplemental information that is deemed compliant into the GIPS required or recommended provisions in the future, and in this case such information should naturally be subject to verification.
5. ***Do you agree with the proposed Effective Date of this Guidance Statement? If not, when should the guidance become effective?***
- We **agree** with the proposed effective date of April 1, 2003. We also agree with the treatment that the Guidance Statement should not be retroactively applied.