

30 December 2004

CFA Institute  
CFA Centre for Financial Market Integrity  
Reference: Guidance Statement on the Use of Leverage and Derivatives  
P.O. Box 3668  
Charlottesville, Virginia 22903  
USA

The SFF GIPS Group has discussed the proposed guidance statement on recordkeeping requirements on meetings November 24 and December 9, 2004. We apologise for the slightly late arrival of our comment.

Best regards,

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Erik Sjöberg,  
Chairman, SFF GIPS Group

## **Comment on the Proposed Guidance Statement on the Use of Leverage and Derivatives by the SFF GIPS Group**

The numbered answers under General and Specific Comments refer to the questions under the respective parts of Comment Requested. Under Other Comments, other parts of the proposals are commented.

### **Comments Requested**

1. Yes
2. No
3. Yes, even though the use of derivatives cannot in general be said to create leverage.
4. Yes

### **Specific Comments on Text of Guidance Statement**

- In the introduction, we would suggest that the concept of “materially” employing leverage and/or derivatives be specified.
- In the section “Creation of a Leverage Policy”, we note that it is possible to create a portfolio without derivatives and/or leverage with a beta of more than 1.2, so one might argue about the “materiality” of 120% exposure.
- In the section “Composite Construction for Portfolios Utilizing Leveraged Strategies”, it is assessed that “calculation of returns for leveraged portfolios.... is basically the same as for non-leveraged portfolios.” Then, does it need to be mentioned at all?
- In the same section, we question the paragraph starting by “If the nature of the mandated ....”. Why would a manager ever agree to manage under a strategy that does not fit with the manager’s “intended strategy”? This paragraph gives a hide-out, where badly-performing portfolios can be classified as non-discretionary. Also, this definition is not in line with GIPS.
- We generally think that the section on risk measures is good, but we question the requirement that “composites with less than three years of performance history should not disclose the tracking error”. We even think that a recent 3-year (or even 2-year) tracking error is much more relevant to show than a 10-year tracking error.
- The discussion on tracking error of a composite is nothing specific for derivatives/leverage and should thus, if anywhere, be included in GIPS, alternatively a future guidance statement on risk measures.
- In the “Overlay Strategy Discussion” section we would like to have a definition of overlay strategy.