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## Revising the GIPS Standards (“Gold” GIPS)

Dear Madam, Dear Sir

On behalf of our Performance Standard experts, please accept our thanks for giving us the opportunity to comment on revising the GIPS Standards (“Gold” GIPS).

Our remarks in section A. (general comments) and B. (specific comments) correspond to your proposed scheme for requested comments; in section C. we offer further comments.

### A. General Comments

#### 1. Do you support AIMR’s effort to revise and expand the GIPS standards?

Yes we do.

#### 2. Do you agree with the evolution process for the GIPS standards?

Yes we do.

Basically we understand and appreciate CFA Institute’s decision to have but one effective date, both for the recently adopted new guidance statements and provisions as well as for the “gold” GIPS standards. Nevertheless CFA Institute’s should pay attention not to create the impression of being too laid-back as any deadline postponement may reduce the credibility of GIPS.

A pre-announced time schedule for introducing future changes to GIPS would be of considerable assistance to firms, enabling them to implement the necessary changes on time and without confusion.

#### 3. Is the language of the Standards straightforward and comprehensible?

The language of the Standards is generally straightforward and comprehensible.

In some passages, however, we would welcome a stricter distinction between “can do” and “must do” clauses (what category do the diverse “should do” clauses belong to?).

Specific comments:

- 4.A.4: Can we assume that booking date = trading date for European asset managers? In Switzerland the so-called “booking date” principle is usually applied, i.e. transactions are booked with an up to T+3 day delay after the trade occurred in order to process all data properly. An interpretation or guidance statement should clarify whether such practice corresponds to the trade date principle or not.
- 4.A.10: It is assumed that funds are completely benchmark orientated. This may be the case for mandates in developed countries, but for emerging and small cap mandates benchmarks are often only indicative and investments outside the benchmark common. In these cases it would be too burdensome to disclose all deviation from the benchmarks. Furthermore it is doubtful whether the requirement to disclose on the most recent period makes sense. We suggest removing or relaxing the requirement so that it should not be mandatory to provide a specific %-value but merely to indicate that investments outside the benchmark may exist.
- 4.A.22 states that the firm must disclose any discretionary use of a sub-advisor(s). Please clarify the scope and extent of this disclosure (e.g. whether individual sub-advisors must be named, etc.)
- 4.A.24: An example of an “abbreviated description” should be given. How detailed should an abbreviated description be; e.g. would it be enough to state that the Fund is invested against FTSE100?
- 5.A.1 (b): Annual returns – does the calculation refer to annual calendar years (i.e. December to December) or rolling annual returns (i.e. February to February)?
- 5.A.1 (d): What is meant by “dispersion”: standard-deviation, high-low return, equally weighted return, asset weighted return?
- 5.B.1 (d): We propose upgrading this recommendation to a requirement and adding at least one of the composite-level risk measures mentioned in 5.B.2.
- 5.B.2: Very vague. We need further guidance on this point. Over which time periods should statistics be provided?
- F.C.A.4: What is the minimum requirement of a composite description that should be disclosed?

**4. What modifications, if any, should be made to this proposal?**

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Existing Guidance Statements should be better integrated into "Gold" GIPS. Requirements and recommendations should be cross-referenced with Guidance Statements.

All "*replaced by .....*" and "*moved to ....*" should be deleted (e.g. 4.B.1 replaced by 4.A.21). This helps to keep the GIPS Standards lean and comprehensible.

**5. Do you agree with the numbering and format?**

Yes we do. But we think that there should be a consistent numbering of all GIPS chapters and recommend replacing the "Fundamentals of Compliance (FC)" with a "0" numbering (0.A.1, etc...).

**6. Should AIMR consider any other methods for meeting the objectives of evolving the GIPS standards?**

We have no comments to this point.

**B. Specific Comments**

**1. Is the new requirement that mandates firms to provide a compliant presentation to all prospective clients too onerous a burden for firms claiming compliance with the GIPS standards?**

We clearly support the principle of providing compliant performance presentations and do not think that this is too onerous a burden for firms adhering to the GIPS standards.

However the standards should define what is meant by "*prospective clients*". GIPS-compliant firms should have the right to deny presenting performance reports to competitors, journalists, or consultants who obviously have no interest in entering a client relationship. Firms must also be given the right not to disclose performance or composite data for commercial databases where a fair comparison between asset management firms is not guaranteed or where GIPS core principles are violated.

We suggest the following modification: "*The firm must provide a compliant presentation to all prospective clients or all persons or organisations where it can be reasonably assumed that they are prospective clients....*" (The remaining part unchanged).

**2. Is the new requirement that mandates firms to provide a list and description of composites to any prospective client that makes such a request too onerous a burden for firms claiming compliance with the GIPS standards?**

No. Producing a list including descriptions is not too onerous (depending on its frequency, annual/semi-annual). However it is unreasonable for a prospective client to request brochures for all composites. If a client requests too many brochures we should have the right to arrange a meeting in order to define his requirements.

3. **Do you agree with the new recommendation that states the firm should not market a composite to a prospective client with assets less than the composite's minimum asset level?**

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Yes. In addition to the required disclosure of a portfolio size restriction, the firm should disclose any portfolio management reason for the restriction (e.g. difficulty of diversifying small portfolios).

Firms should be recommended to disclose to a prospective client any discrepancy between the presented composite and the prospective client's strategy.

It should also adapt the fee schedule to the size of the prospective clients.

4. **Do you agree with the new requirement that mandates firms to be prepared to provide a compliant presentation for any composite on the firm's list of composites to a prospective client that makes such a request?**

Yes we do.

5. **Do you agree with the new requirement that requires firms to calculate composite performance by asset weighting the member portfolio returns at least monthly (beginning 2005)?**

Yes, we do. Our experience shows that firms have already implemented the asset-weighted method for composite performance calculation.

[The question reflects a misunderstanding: The standards propose the requirement as from 1.1.2006 (2.A.8). But the same requirement is already incorporated in the Guidance Statement on Calculation Methodology and in effect since 1<sup>st</sup> June 2004.]

6. **Do you agree that the effective date should be moved from 2005 to 2010 for the requirement that stipulates a carve-out return be managed separately with its own cash balance?**

In Switzerland, and in fact Europe in general, the use of carve-outs is very marginal and thus not widespread in the portfolio management business. However, those firms that do use carve-outs are not yet prepared to implement this requirement as of 2005. Therefore, we agree that moving forward the effective date to 2010 will allow firms the necessary additional time to find a solution and/or upgrade IT systems. The requirement should, however, be introduced in 2010 and not postponed any further as deadline postponement reduces the credibility of GIPS.

7. **Is it reasonable for the GIPS standards to require firms beginning 2010 to value portfolios on the date of any external cash flow?**

Yes, as it will generally improve accuracy.

**8. Should the GIPS standards require firms to retroactively disclose the following when carve-out segments are used?**

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(a) *A list of the underlying composites from which the carve-out was drawn,*

Yes it should.

(b) *The percentage of the composite that is composed of carve-outs.*

No, as this provision is too onerous.

**C. Further comments**

General remark: Some Inconsistency

The standards are not always very coherent with regard to the level of sophistication required: For example, on the one hand the standards tolerate less than daily valuation though daily valuation has become a standard with most portfolio accounting systems, and it is well known that monthly valuation may lead to considerable performance distortions. On the other hand advanced accounting requirements such as segmentation of bundled fees or accrual accounting for dividends are far from routine today, requiring substantial data and system upgrades, and yet have minor impacts only on the overall performance for most institutional portfolios.

FC.B.1 (Definition of Firm)

1. The recommendation to adopt „...the broadest, most meaningful definition of the firm...” (FC.B.1) creates a misleading impression that international consolidation would be the preferred way of defining composites. However, in many cases it may be doubtful whether the „broadest definition” is also the most meaningful. In fact we believe that international consolidation is valuable only if the firm uses some form of an internationally standardized investment process. One typical characteristic of globally oriented investment firms is that they may have one brand name but subsidiaries with their own investment process and marketing activities for local programs.

2. According to the Revised GIPS, the definition of the firm is no longer permitted as:

- an entity registered with the appropriate national regulatory authority overseeing the entity’s investment management activities;
- all assets managed in one or more base currencies.

According to the new proposal the firm can only be defined as an investment firm, subsidiary, or division held out to clients or potential clients as a distinct business entity. This is a significant modification to the Guidance Statement on the Definition of the Firm (effective since 1 April 2002) where the above-mentioned options were allowed. It should therefore be clarified whether firms defined under the “old” rules will have to redefine themselves or not (“grandfathering”).

## 1.A.6 (Input Data, Accrual of Dividends)

We propose downgrading the requirement to a recommendation. The benefits of having accruing dividends (i.e. effect on composite performance) are not worth its costs of implementation (we assume that IT costs were the reason for delaying the target effective date from 2005 to 2010).

## 3.A.1 (Composite Construction)

*„All actual, fee-paying, discretionary portfolios must be included in at least one composite. While non-fee-paying discretionary portfolios may be included in a composite (with appropriate disclosures), non-discretionary portfolios must not be included in a firm's composites.“* We suggest eliminating the first part of the second sentence. It makes no sense requiring that a portfolio with a 90% discount to be included while a portfolio with a 100% discount only „may“ be included in a composite.

## 4.A.7 (Disclosures, Leverage and Derivatives)

A distinction should be made between (a) the use of derivatives without leverage (e.g. futures for hedging purposes) and (b) levered investing. A portfolio that is managed according to scenario (a) (e.g. a portfolio of deep in-the-money calls with enough underlying cash to bring leverage to <1) can be seen as a close replacement for a traditional portfolio without derivatives. We do not see a need for special disclosures in such a case. In contrast, a leveraged portfolio can have radically different risk exposures, and we fully agree that scenario (b) requires special disclosure.

## 4.A.9 (Disclosures, Taxes)

*„If using indexes that are net-of-taxes, the firm must disclose the tax basis of the composite (e.g. Luxembourg based or U.S. based) versus that of the benchmark.“* How can a tax basis be disclosed in a „multi-national“ composite?

## 4.A.11 (Disclosure, Exchange Rates)

4.A.11 requires the disclosure of any inconsistency in exchange rates between portfolio and benchmark. It should be amended with a similar requirement about the sources used for security prices. A difference in security prices between the portfolios and the benchmark may create a significant amount of fictive tracking error and could also bias the performance calculation. 4.A.21 should then be adapted correspondingly (reference to valuation sources deleted).

Furthermore we suggest adding a requirement to disclose „price valuation lags“ between composite and benchmark (e.g. the one-day lag due to „fund forward pricing“).

4.A.21 (Disclosure, Calculation Methods)

*"The firm must disclose that the portfolio, composite, and benchmark calculation methods and valuation sources are available upon request".*

As this information is crucial to understand a performance presentation we believe that in any case the applied method of calculation should be disclosed together with the composite presentations and not just be available upon request.

5.A.4. (Presentation and Reporting)

*"Performance results of a past firm or affiliation **must** (currently: **"can only"**) be linked to or used to represent the historical record of a new firm or new affiliation if:..."*

This proposed modification is significant and must be shown in greater prominence in the Summary of Proposed Revisions. It should also be mentioned that provisions of the Guidance Statement on Performance Record Portability must be applied in such cases.

Mandatory Verification

We agree with the principle that verification should become mandatory. The standards define a deadline for initial verification (December 2011) but do not specify anything about the intervals between future verifications. We suggest requiring explicitly annual verifications.

APPENDIX A: Sample of Presentations

In the last column *"Total Firm Assets"* are presented as a requirement. This column should be deleted considering that this requirement will be downgraded to a recommendation. Also, the currency of the report should be checked again, as Note 3 refers to DEM whereas the composite value column refers to EUR (with data pre 1999).

We are grateful for having had the opportunity to comment on the proposed provisions and hope that our comments will be taken into consideration.

Yours sincerely,

SWISS BANKERS ASSOCIATION  
Swiss Performance Presentation Standards



St. Hoffmann



M. Tissot