

CFA Institute
Professional Standards & Advocacy Department
Reference: “Gold” GIPS Standards
P.O. Box 3668
Charlottesville, Virginia 22903

Response to Invitation to Comment:
Revising the GIPS Standards (“Gold GIPS”)

On behalf of:

Scottish Widows Investment Partnership Limited
Edinburgh One
Morrison Street
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General Comments

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

SWIP fully support the concept of the Gold GIPS Standards and the need for continued review and expansion. However, we are concerned that the standards are becoming too broad and prescriptive in nature in an effort to encompass all asset classes. We believe that the focus for GIPS needs to be about encouraging more firms to comply with the existing Standards and the elimination of country versions of GIPS.

2. Do you agree with the evolution process for the GIPS standards as outlined above?

SWIP broadly agrees with the principles for evolutionary progression of GIPS although specific concerns are noted later in this response.

3. Is the language of the Standards straightforward and comprehensible? If not, how can it be improved?

Generally the language of the Standards is clear and easily understood although the increasingly technical content of the Standards should be handled with care. Wording within the Standards such as ‘material’ and ‘significant’ are subject to interpretation and should be removed in favour of clearer definition. The existence of an extensive interpretations library on the CFA Institute’s website suggests that improvements can still be made through continual review.

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

The proposed changes to the effective dates for accrual accounting and use of carveouts causes some concern due to the fact that firms have had adequate time to bring their processes in line with the requirements and indeed many may have allocated significant resource to this end. The extending of these deadlines in SWIP’s view sends the wrong type of signal to the marketplace and the integrity of the Standards may suffer as a result.

5. *Do you agree with the numbering and format of the proposed revised GIPS standards?*

Yes, subject to ongoing review to ensure clarity.

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

Feedback from investment management firms who are required to implement the standards is vital for the evolution of the Standards and the opportunity to comment in this way provides a good forum. However, the IPC should consider how best to actively encourage such responses from all those currently claiming (or intending to claim) compliance.

In broadening the remit of the IPC and increasing the level of technical detail the Standards are in danger of becoming too regulatory in nature and likely to become too onerous to maintain or a barrier to compliance for many firms.

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?*

While in principle this seems (correctly) to be a fundamental requirement of the Standards, firms can experience difficulties through the complex partnership and other channel based relationships that exist. Also, quite frequently a prospective client may be requesting information about the firm's potential to run a mandate which would result in the development of a new product entirely. This can result in provision of a composite presentation which bears no relationship to the discussion at hand and simply generates confusion. The IPC needs to consider the inclusion of appropriate guidance within the Standards to cover this type of scenario.

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

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

Yes

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

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

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?*

No, for reasons stated in item 4 in General Comments above.

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

The use of daily calculated performance returns is likely to be widespread by the effective date above and is already being used by many firms. However, it is also likely that many firms may choose not to calculate daily returns due to the trade-off between cost and accuracy. The use of the words ‘any external cash flow’ seems inappropriate for such firms as the flow of small amounts for fees etc. are likely to have minimal effect on returns yet represent a substantial overhead in terms of the cost of revaluation.

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

- (a) *a list of the underlying composites from which the carve-out was drawn, and*
(b) *the percentage of the composite that is composed of carve-outs.*

Yes, entirely reasonable to assume that this information would be readily to hand.

Other Comments

Fundamentals of Compliance

SWIP welcomes the inclusion of this section within the Standards.

Calculation Methodology

2.A.2 The statement ‘Firms must use a “true” Time-Weighted Rate of Return calculation method’ is open to misinterpretation and requires better definition or guidance as to acceptable methodology.

Disclosures

4.A.2 Removal of Total firm assets for each period. We recommend that the disclosure of the firms Total assets remain as a requirement. This is a more meaningful statistic than the % of firms assets held by the composite which should be removed as this can be irrelevant for cases where small single fund composites are concerned and can easily be derived if required.

4.A.16 Potential clients will be basing manager selection decisions on the quality of the people, process and the consistency of past performance, not on the basis of published fee rates which may be unrepresentative of the actual fees which will be paid depending on level of service provided. It should perhaps be better to require that fee schedules be made available on demand.

4.A.28 While the requirement to maintain a list of discontinued composites for five years is unlikely to pose an administrative burden we would question the necessity or retaining this information for five years. To what end would this help prospective clients in their selection process?

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