

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 we agree theoretically that a firm should not select with whom they make a claim of compliance, we know the difficulties a firm can face when trying to meet this requirement. (This requirement is similar to guidance that has been in the AIMR-PPS Q&A database since March/April 2000.) Firms often use many distribution channels and means for meeting with prospective clients. In some instances, such as with broker referrals or wrap/SMA arrangements, often the manager has no contact at all with the prospective client. Consultants and consultant databases also add complications, as they may stand between the manager and the prospective client. Tracking which prospective clients have received compliant information within the last 12 months can be difficult, if not impossible. We believe the language should be changed to state "The firm must attempt to provide a compliant presentation to all prospective clients..."

2. 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?

Carve-outs, with allocated cash, are still widely used in the U.S market, particularly by firms that focus on high net worth clients. The Japanese market also widely uses carve-outs. We are very pleased that the date has been moved forward to 2010. However, we believe that carve-outs are very useful and should continue to be allowed as of 2010. We strongly recommend that the ban on the use of carve-outs be eliminated permanently.

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

We believe it is not reasonable for the GIPS standards to require a firm to reprice a portfolio for any cash flow. We acknowledge that daily pricing does allow a firm to most accurately calculate performance results. However, if a firm believes that daily pricing is important, they are probably pricing daily already. If a firm believes that monthly pricing is sufficient, requiring daily pricing, or the ability to do so, seems very expensive for not much more overall accuracy. We fail to see how repricing a \$25m portfolio for a \$250 fee payment can have a significant impact, if any, on performance.

For those firms that do not wish to adopt a policy of daily pricing, their only options will be to adopt a Significant Cash Flow policy for all cash flows, where accounts are removed from the composite for all cash flows, or use Temporary New Accounts for all cash flows. The first option will lead to a constant movement of accounts into and out of the composite, as most accounts experience at least minor cash flows during any given month. While this policy would be in compliance with the Standards, it does not seem to accomplish the goal of having a composite include all accounts managed in a similar style, and accurately reporting performance results. The second option is not practical, as very few firms use Temporary New Accounts even for large cash flows, due to the difficulty in doing so, as acknowledged by new recommendation 2.B.3. We strongly believe that daily pricing should be a recommendation, and should not be required.

4. Requirement 1.A.4: The firm must use Trade-Date Accounting for periods beginning 1 January 2005.

Some segments of the U.S. still use settlement date accounting with some regularity. We do not believe that the use of trade date accounting is a critical factor for ensuring accuracy of performance. In fact, this required change could hurt two segments of the US market: smaller firms whose clients use brokerage accounts versus a custody account, and private banking accounts where settlement date accounting is still widely used. The original concern for using settlement date accounting was the potential impact of the long period between trade and settlement date for international securities with extended settlement periods, e.g. 6 months. Such a long settlement period would obviously have a huge impact on performance. However, given that most trades now settle within 3 days, this issue is moot and should not be a concern. We believe that the use of trade date accounting should be a recommendation and not a requirement.

5. Requirement 1.A.6: For periods beginning 1 January 2010, Accrual Accounting must be used for dividends (as of the ex dividend date.)

We are pleased that the effective date was moved from 2005 to 2010. However, we think this requirement should be eliminated. The impact of the use of cash versus accrual basis for dividends is typically very minor. We believe that firms that are most concerned with accuracy will already be recording dividends on ex-date. For those firms that rely on brokerage statements for inputs to the performance calculation, they might be forced to adopt a policy that will not have a significant impact on performance results. We believe that the use of accrual accounting for dividends should be a recommendation, not a requirement.

6. Requirement 2.A.6: All returns must be calculated after the deduction of the actual Trading Expenses incurred during the period. Estimated Trading Expenses are not permitted.

We believe that a firm should be allowed to use a model transaction fee as long as the use of model transaction fees and the amount of the model transaction fees are fully disclosed. The Fees Provisions allow a firm that manages accounts with Bundled Fees to deduct the portion of a bundled fee that is attributable to transaction expenses if they know that portion. (See GIPS Provision 2.A.9.(a) below.) Realistically, the breakout of a bundled fee into its pieces is just a model, and may have no relationship to actual transaction expenses. We believe that the ban on the use of estimated transaction costs should be eliminated.

7. Requirement 4.A.21: Firms must disclose that the portfolio, composite and benchmark calculation methods are available upon request.

We do not see any value in this additional disclosure. If a prospective client cares enough to ask about the performance calculation methodology, they will do so, as they would for any policy followed by the manager. We do not believe that disclosing an offer to provide such information will have any impact on a prospective client. We believe this new disclosure item should be deleted.

8. Requirement 4.A.28: The firm must list "discontinued" composites on the firm's list of composites for at least five years after discontinuation.

We do not agree with this requirement. We believe that a firm's list of composites should be specific to a point in time, and should not have to include terminated composites. We believe this new requirement should be deleted.

9. Requirement 5.A.1: The following items must be reported:...
  - (d): A measure of dispersion of individual portfolio returns for each annual period.

We believe the requirement to measure dispersion based only on annual returns of those accounts that are included in the composite for the full year should be reconsidered. We believe that other dispersion measures could be more meaningful. For example, many managers calculate a dispersion measure each month or quarter. An average of these measures could be quite useful. We believe that a firm should be allowed to determine which measure of internal dispersion is most meaningful to them, and allow them to use their selected dispersion measure as long as it is fully disclosed.

10. Verification will be mandatory effective 1 January 2010. The verification report must cover periods from 1 January 2010 forward, at a minimum. Firms will have until 31 December 2011 to complete the initial verification. If a verification report has not been issued by 31 December 2011, the firm may no longer claim GIPS compliance.

Our view is that verification should not be mandatory, for the following reasons:

- lack of qualified verification firms;
- lack of understanding concerning what a verification is, and what it is not. (Too often we hear people refer to performance results being verified, when in fact verification provides no assurance on the results of a specific composite); and
- the cost associated with verification.

We believe the marketplace should be allowed to determine whether verification is necessary or not.

11. Performance examination guidance should be added to the GIPS standards.

In order to encourage adoption and use of the GIPS standards in the U.S., the GIPS standards would need to acknowledge the widespread use of "performance examinations" in the U.S. The AIMR-PPS standards include guidance for performance examinations, and this guidance could easily be adapted for the GIPS standards. We recommend that such guidance be added to the GIPS standards.

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