SwissBanking

SPPS SWISS PERFORMANCE PRESENTATION STANDARDS

Professional Standards and Advocacy
Association for Investment Management and Research
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Invitation to Comment: Performance Standards

Dear Madam, Dear Sir,

On behalf of our Performance Standard experts please accept our thanks for giving us the occasion to comment on the proposed guidance statements.

Proposed Guidance Statement on Composite Definition

Do you agree with the principles established in the Guidance Statement?

Generally we agree with the proposed principles except for the following.

Investment Guidelines – Multi-Asset Portfolios "Only multi-asset portfolios for which the firm has discretion over the asset mix are to be included in multi-asset composites". This guidance is not absolutely clear with respect to what happens if the firm does not have absolute discretion over the asset mix, for example, when a firm receives the strategic asset allocation guidelines from the client with respect to asset class mix (percentage of equity, bonds, etc.) but still has discretion over the tactical asset allocation and choice of securities. If in this case the firm is not allowed to include such a portfolio in multi-asset composite, the only solution left to the firm is to carve-out the asset-classes and put them into single-asset composite. However, if a firm does not meet the criteria of GIPS 3.A.7., this would only be possible till 1.1.2005.

We suggest providing additional clarification of the term "discretion over asset mix" and the treatment of the balanced portfolios.

Do you agree with the treatment of portfolios that fall below a minimum asset level?

Generally we agree with the proposed treatment except for the following.

The guidance "if the portfolio falls below the minimum due to market movements, the firm must leave the portfolio in the original composite until there is a documented change in client guidelines or acknowledgement from the client that the firm considers the portfolio too small to implement the composite strategy" should be deleted:

- The fact that a portfolio falls below the minimum portfolio size does not necessarily mean that it is too small to implement the strategy (e.g. for the strategies invested through mutual funds a portfolio size may not be that important) but rather means that a portfolio is not representative due to its low weight in the composite. The sole fact that the size of a portfolio falls below the minimum portfolio size does not imply a need to change the clients' investment guidelines.

- The proposed treatment would be difficult to implement in practice as in private banking firms do not always have frequent access to all clients. To obtain documented acknowledgements in time may be difficult.

A firm can have quite a few portfolios just slightly above the minimum portfolio level which would be susceptible to frequent short-term fluctuations around the minimum portfolio size. To avoid frequent "ins" and "outs" of portfolios, we would rather suggest defining a time frame (i.e. a number of consecutive days) after which a portfolio should be excluded from the composite because it has fallen below the minimum size.

Should firms be allowed to exclude a portion of a portfolio as non-discretionary?

Basically yes. However, on the basis of our experience we think that this is often not feasible in practice. Exclusion of a non-discretionary portion of a portfolio would re-quire the creation and administration of "sub-accounts" which would be very difficult to implement (IT).

How should portfolios with different measurement periods be treated?

We agree with the proposed guidance.

Do you agree with the proposed Implementation Date of April 1, 2002?

We suggest setting the Adoption Date of January 1, 2003 to allow firms which are currently in the process of implementation of the Standards enough time to recon-sider the way they will define their composites.

We thank you for giving us the occasion to comment on the proposed guidance statements and we hope that our comments will be taken into consideration.

Yours sincerely,

SWISS BANKERS ASSOCIATION

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