

“Gold” GIPS Comments

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Initial Comments:

- I believe the name should continue to be simply GIPS. I believe “Gold” only creates more confusion and exacerbates the current misconceptions of varying levels of compliance in addition to TG’s and CVG’s. Most firms in the U.S. only now are beginning to understand the GIPS. Adding “Gold” GIPS will possibly only create more confusion.
- A firm still should be able to define itself as “an entity registered with the appropriate national regulatory authority overseeing the entity’s investment management activities”(pg 3). This seems to be by far the most commonly used method to date at least in the U.S.
- The total firm asset disclosure should remain a requirement. Firms must have access to this data to calculate the percentage of firm assets a composite represents anyway. Many prospects and consultants like a quick view of a firm’s assets under management over time, which this current disclosure provides (pg 3).
- I concur with all the “New Provisions” and “Modified Provisions” on page 3.
- I think more guidance should be provided to firms that manage predominantly private client accounts that typically have some degree of constraints. Some of these firms struggle with creating composites based on objective because the lowest common denominator is typically asset allocation. Problems arise when allocations shift without objectives changing. The composite returns may still be representative of the objective, but they are no longer representative of the stated target allocations. There may not be much that can be done for firms that manage predominantly balanced accounts with varying allocations; however, some thought should be put into providing better guidance for these firms.

Answers to “Specific Comments” questions on page 4:

1. No, firms claiming compliance should have to provide a compliant presentation in all cases when performance is presented. If performance is not being presented, however, I do not think the firm should have to present a compliant presentation.
2. No.
3. Yes.

4. Yes, but I think this needs to be quantified. Should the firm have presentations for all composites on file? Should they be able to produce them within 24 hrs.? One week? I believe they should have a presentation for each composite on file (updated at least annually) whether the firm actively markets the presentation or not.
5. Yes.
6. Yes.
7. I think this needs to be carefully researched. The last thing that should happen is that the IPC sets the date for 2010 and then has to push it back because the software systems have not built daily valuation methodology by then. These situations diminish the standards' credibility in my mind (I feel pushing back the dividend accrual date is an example of this). I would like to think that all major portfolio management and performance measurement systems will have daily valuation capabilities in place by 2010 but can we be sure?
8. a. No, because my understanding is that the equity portion of a balanced account can appear solely in an "Equity + Cash" composite and not appear in any other composites (e.g. a balanced composite) as long as the fixed income portion is being presented in a composite as well.
b. Yes.

Comments on the Content of the GIPS

- I believe there should be 6 core sections of the GIPS with "Real Estate" and "Venture Capital and Private Equity" being ancillary sections. Sometimes firms feel overwhelmed and do not understand that these provisions do not apply to them if they do not utilize these alternative investments. I know this is hard to believe, but we have seen cases of confusion.

Fundamentals of Compliance

- FC.A.3 should be clarified to indicate that as long as performance is presented, then a compliant presentation must be presented. I feel if the firm is not presenting any performance, then it should not have to present a compliant presentation. But certainly, if performance is ever used, a compliant presentation must be presented.
- FC.A.14 should be deleted. I strongly disagree with this provision. There will be many misconceptions that a firm is GIPS compliant (when it may not be) if the firm is allowed to reference that an individual account is "calculated in accordance with the GIPS" even if the firm is presenting individual client performance to the actual existing client. There simply is already too much confusion surrounding the fact that only a firm can be compliant, not a composite or account.

Input Data

- 1.A.1 – Can this be expanded/clarified? Many firms feel this is too subjective as to what constitutes sufficient supporting documentation. Must the firm solely have access to all composite calculation components or must it have access to all

- portfolio accounting data (holdings, prices, transactions, account records) for all accounts?
- 1.A.3 – As alluded to earlier, I think revaluing portfolios at all cash flows (essentially daily calculations) is a good idea, but my fear is that this date may have to be pushed back due to software limitations. Will clients' demands be forceful enough for the software systems to build daily valuation capabilities by 2010?
 - 1.A.5 – I think this is a good place to clarify whether interest on cash equivalents must be accrued. I believe the answer is that if the instrument is used as a fixed income vehicle then it must be accrued. However, if it is used as a place to “park” cash, then it does not have to be accrued. I think an explanation of this here would be beneficial.

Calculation Methodology

- 2.A.7 – I would suggest adding an explanation of how accounts should be handled that drop below the minimum. (E.g. The firm must have a policy in place for accounts that fall below the minimum in terms of if and when the account will be removed from the composite). Most firms seem to not remove it from the composite immediately, especially if the drop is due to market conditions.

Composite Construction

- 3.A.7 – I agree with this, but I think it is hugely important to follow through this time around. Again, I think it's important to gauge whether the software systems and/or custodians will facilitate managing segments with their own cash allocations without creating separate accounts.

Disclosures

- 4.A.2 – should not be removed for reasons stated earlier in this document.
- 4.A.5 – As recommended earlier, it would be nice if “prepared to provide a compliant presentation” could be quantified further.

Presentation and Reporting

- Nice work on moving 5.A.1 (e) and (f) to the Disclosures section.
- 5.A.4 seems like it could be revised to be more aligned with the Portability guidance statement. For example, the guidance statement states that “**In addition to the above four rules, when one firm (Firm A) joins an existing firm (Firm B), performance from one of Firm A's composites can be linked to the ongoing results of Firm B *only if*:** Substantially all the assets from Firm A's composite transfer over to Firm B”. Section 5.A.4 seems to indicate that in all portability cases, the majority of the assets must transfer to the new firm, while the guidance statement seems to only mandate this when one firm joins another.
- Also related to 5.A.4, I think it should be clarified whether the “results of the past firm or affiliation” had to have been results of a GIPS compliant firm.