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Rotterdam, 31 December 2004

Dear IPC Members,

We hereby send you the response of the VBA-IPM Committee, the Dutch Investment Performance Measurement Committee of VBA, the local sponsor of GIPS in the Netherlands, regarding the Guidance Statement on the use of Leverage and Derivatives.

Comments requested

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

Yes, the VBA IPM Committee agrees with the basic principles established in the Guidance Statement. We believe this is a good first step in establishing principles to incorporate leverage and derivatives. At the same time, the VBA IPM Committee is convinced that the IPC should continue work in this area in order to strengthen these provisions going forward. The VBA IPM Committee therefore encourages the IPC to establish a Risk Measures Committee in the near future.

2. Are there other elements involved in the use of leverage and derivatives that are not included?

We would like to see two aspects of leverage added to the Guidance Statement.

- First, in our view, there is an important distinction between leverage where the market value of the portfolio can turn negative due to market and/or credit risk events and leverage where the market value of the portfolio can never turn negative (ignoring operational risk). The VBA IPM recommends that the firm be required to disclose whether leverage and/or derivatives are used in such a way that the market value of the portfolio can turn negative.

- Second, we believe that the proposed Guidance Statement can be strengthened by requiring firms to disclose a relevant measure of risk for each composite as part of the description of the investment strategy. We do not believe that the measure should be prescribed by the standards at this time. Firms should be free to choose between various measures (standard deviation, VaR, etc.) and the type of risk measured (relative or total). Note that we are not suggesting to require that actual risk of the composite be measured at this stage. All we are suggesting is that the risk policy as part of the investment strategy be described. As an illustration:

Traditional Product

The portfolios in this composite are managed with a tracking error of less than 4% per annum.

Total Return Product

For a total return product: the portfolios in this composite are managed with a 95% Value-at-Risk Ratio of less than 20% per annum.

Guaranteed Product

The portfolios in this composite are managed to maximize upside exposure to equity markets while ensuring that the investor never loses more than 10% of the initial investment.

3. Do you agree with the guiding principles provided to firms employing leverage and/or derivatives?

The VBA IPM Committee interprets this question as referring to the Appendices to the Guidance Statement. We regard the work laid down in these appendices as very valuable and helpful. For reason of the depth of the presented mathematics, however, we question whether the very technical parts should be included in the Guidance Statement and therefore become part of GIPS.

We very much agree with the objective to give help to the industry when it is about the calculation of exposure. In this aim the authors succeed. The part we question is not about the formulas but concerns how the information can or should be made available to the public. We fear, when the very mathematical parts of the appendices are kept as part of the Guidance Statement, these prescriptive complex formulas will be interpreted by the industry as a market standard that needs to be followed. We believe this is in conflict with the key principle of full disclosure, in which clarity on how things are done is of most importance, so to speak regardless of the choice of method. The explanation of the calculation of exposure can for example be made public by means of the CFA Institute website when it is not presented as part of GIPS.

4. *Do you agree with the proposed Effective Date?*

The VBA IPM Committee agrees with the proposed Effective Date of January 1, 2006.

For questions and/or comments, please do not hesitate to contact the following individuals:

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Kind regards,

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