

Association for Investment Management and Research
Professional Standards & Advocacy Department
Reference: “Gold” GIPS Standards.
P.O. Box 3668
Charlottesville, Virginia 22903
FAX: 1-434-951-5320
<mailto:standardsetting@aimr.org>

Herewith we send you the reaction from the VBA-IPM committee, the Dutch Investment Performance Measurement committee sponsored by the VBA, regarding the chapters 4 (Disclosures) and 5 (Presentation and Reporting) of “Gold” GIPS.

For questions and/or remarks, please contact the following persons:

Corné Reniers, chairman VBA-IPM committee, Robeco, e-mail:

C.A.G.M.Reniers@robeco.nl

Paul de Beus, secretary VBA-IPM committee, [Ernst & Young Actuaries](#), Asset Risk Management, e-mail: paul.de.beus@nl.ey.com.

4. Disclosures

Generally, we agree with the proposed Disclosures section. However, we would like to draw your attention to the following standards.

- 4.A.1 In order to clarify the distinction between the firm as a concept of GIPS compliance and the firm as a business entity that may have one or more “firms” that claim GIPS compliance, we propose to reword 4.A.1 to:

“The entity must disclose the definition of firm used to determine the firm's total assets and firmwide compliance.”

- 4.A.4 As a general rule, we believe that firms should not only be required to disclose if they deviate from some preferred method (in this case trade date accounting), but if they deviate, firms should also disclose and describe the method that they do use. We therefore propose to expand 4.A.4 to:

“For periods prior to 1 January 2005, the firm must disclose if it employs a transaction accounting method other than Trade Date Accounting, and if so, to describe that other method.”

- 4.A.5 The last part of the second sentence of 4.A.5 reads:

“Firms...must not retroactively apply the new limit.”

This is not a disclosure, but a methodological requirement. We propose to move this part of the sentence to 2.A.7.

4.A.5 The last sentence of the proposed wording for 4.A.5 reads:

“The firm should not market a composite to a prospective client with assets less than the composite’s minimum asset level.”

Since this sentence does not describe a disclosure requirement, we propose to move it to FC.B.2 as part of the Fundamentals of Compliance section.

4.A.9 Provision 4.A.9 requires the disclosure of the tax basis of the composite versus that of the benchmark. This is very similar to 4.A.11 concerning the exchange rates used for the composite versus the benchmark, which has been moved to the Input Data section. We propose to integrate these two in the Disclosures section as follows:

“The firm must disclose any inconsistencies between the input data used for the valuation of different portfolios within the same composite and between the input data used for the valuation of the benchmark and the portfolios in a composite. Inconsistencies in input data include differences in the security prices and exchange rates as well as differences in the treatment of withholding taxes on income and capital gains.”

4.A.10 Provision 4.A.10 currently requires disclosure of the percentage invested outside the benchmark by country or region and is now expanded to cover off-benchmark positions by sector as well. Furthermore, whereas before a firm could meet 4.A.10 by a general statement, the proposal now requires specific information for the most recent period.

We agree with a provision that provides the prospect with information about risks in the strategy that are not reflected in the benchmark in order to enable to prospect to assess the performance track record. However, neither the current nor the proposed provision meet this goal for four reasons:

- The proposed exposures on which is to be reported (region, country, and now proposed to be expanded to sector) are arbitrary and incomplete. As a result, the disclosure may give a certain impression about the relative risk of the strategy that is misleading. For example, the composite may not have any off-benchmark bets in terms of region, country, or sector, but it may have off-benchmark bets in terms of market capitalization, liquidity, currency, or style factors.
- The special significance given to off-benchmark bets is inappropriate and may be misleading. A 1% overweight in a security that is in the benchmark may add more risk to the composite than a 1% overweight in a security that is not in the benchmark.
- Requiring firms to report the most recent off-benchmark exposures substantially increases the reporting burden on firms, without benefiting the prospect in any way. The reported exposures will only give a snapshot

- impression of the composite's exposures, whereas the presented performance covers a period of at least 5 years.
- By forcing a firm to report the off-benchmark exposures, 4.A.10 in fact assumes that all portfolios in the composite will have exactly the same region, country, and sector exposures, whereas this may not be the case. Consider, for example, two portfolios in a composite, where one is managed versus a benchmark that includes a certain country and the other versus a benchmark that excludes a certain country. If the country in question is small and/or highly correlated with the others, this may be appropriate from the standpoint of composite construction. However, it changes the reported off-benchmark exposures substantially, depending on which benchmark is chosen for the composite.

Given these issues, we therefore propose to amend 4.A.10 as follows:

“For composites managed against a benchmark, firms must disclose whether investment outside the benchmark has been permitted during the period for which performance is shown. If so, the firm must also disclose whether any limits to such off-benchmark investments were applicable. If so, the firm must disclose these limits.”

- 4.A.16 Provision 4.A.16 (currently 4.B.3) upgrades the recommendation to present a fee schedule to a requirement. We do not support this change for the following reason and instead argue that 4.B.4. be upgraded to a requirement.

The requirement to present a fee schedule that is appropriate to the presentation can mean two things. Either it means that the firm that presents gross-of-fee performance is required to disclose its average historical fee level. This information may, however, not be informative at all to the prospect, which may qualify for an entirely different fee. Furthermore, we subscribe to the view that the firm is entitled to keep information about its fee levels for different types of clients confidential.

On the other hand, if the requirement to disclose a fee schedule appropriate to the presentation means that the firm must disclose the fee level it intends to charge to a prospect, this information cannot possibly be disclosed in a “generic” GIPS composite report. The reason is that the fee schedule will be specific to the prospect, whereas the GIPS composite report is a generic report that is the same for all prospects.

We believe that the current provisions regarding fee schedule disclosure suffice. Firms should be allowed to present gross-of-fee performance in order to eliminate dispersion caused by differential fee levels. Since this may be an insurmountable burden for some firms, firms are also allowed to present net-of-fee performance. However, in order to ensure that performance can be compared between a firm

reporting net-of-fee performance and a firm reporting gross-of-fee performance, the net-of-fee firm is required to present the historical fee schedule.

We therefore recommend maintaining 4.B.3 as a recommendation and moving 4.B.4. to a requirement.

4.A.19 We propose the following change in wording to reduce any possible ambiguity and to be consistent with 2.A.6:

“When presenting Gross-Of-Fees returns, firms must disclose if any other fees are ~~included~~ deducted in addition to the direct Trading Expenses.”

4.A.20 For the same reasons as in 4.A.19, we propose to change the wording of 4.A.20 to:

“When presenting Net-Of-Fees returns, firms must disclose if any other fees are ~~included~~ deducted in addition to the Investment Management Fee and direct Trading Expenses.”

4.A.23 Provision 4.A.23 requires disclosure of any events that help a prospective client interpret the performance record and this represents an upgrade from a recommendation. While we understand the reason for this provision, we have difficulty with a requirement that cannot be objectively verified in terms of compliance. We therefore propose to split the provision into two parts: a requirement that lists a set of events that must be disclosed if they occur, and a recommendation that recommends the disclosure of any other events that may be relevant. Specifically, we propose the following wording for the requirement:

“In order to facilitate the interpretation of the performance presentation, the firm must disclose if the firm or entity to which the firm belongs has changed ownership or has merged with another entity or firm during the period for which compliance is claimed”

We propose to word the recommendation, 4.B.x, as follows:

“It is recommended that the firm disclose any events, in addition to those for which disclosure is required, which help a prospective client interpret the performance record.”

We further propose to deal with deviations between annual and interim performance results in a separate provision concerning error correction, 4.A.x:

“If a composite report contains changes of the performance or other information that has been presented in an earlier version of the composite report, the firm must disclose the reasons for these changes”.

4.A.26 The second sentence of provision 4.A.26 reads:

“Changes to composites must not be applied retroactively.”

We propose to move this sentence to the section on Composite Construction, since it does not concern disclosure. Furthermore, we believe it is important to carefully define what is meant by “redefinition” of a composite. For example, a firm may initially decide that a certain portfolio X, is part of a certain existing composite Y, even though it differs from the other portfolios in certain respects. Over time, however, the firm may discover that the assets managed in accordance with the strategy X grow considerably, such that it warrants the creation of a new composite Z. In that case, we do believe it is warranted to proceed as follows:

1. Retroactively create composite Z, retroactively allocating portfolio X to this composite.
2. Retroactively create composite V, which is the same as composite Y, except that it excludes portfolio X retroactively.
3. Maintain composite Y, including the history of portfolio X, but excluding portfolio X going forward, for a period of at least 5 years (discontinued composite).

We believe that the retroactive creation of the composites Z and V are appropriate as long as composite Y continues to exist as a discontinued composite.

5. Presentation & Reporting

5.A.1.a We propose the following change in wording:

“The following items must be reported for each composite:

- *at least five years performance (or a record for the period since firm or composite inception, if the firm or composite has been in existence less than five years) ~~that is—GIPS compliant~~; and,*
- *after presenting five years of performance, the firm must present additional annual performance up to ten years.*

For example, after a firm presents five years of compliant history, the firm must add an additional year of performance each year so that after five years of claiming compliance, the firm presents a ten year performance record.”

The addition is meant to clarify. The deletion refers to FC.A.13, which states that the claim of GIPS compliance cannot be applied to anything other than the firm.

5.A.1.b Similarly, we propose to modify the wording here to:

“The following items must be reported for each composite: Annual returns for all years”

5.A.4 We propose to change the wording as follows:

“Performance results of a past firm or affiliation must be linked to or used to represent the historical record of a new firm or new affiliation if:
- a change only in firm ownership or name occurs, ~~or~~ and
- the firm has all of the supporting performance records to calculate the performance, substantially all the assets included in the composites transfer to the new firm, and the investment decision making process remains substantially unchanged.”

The reason is to be consistent with the stated reason for the change in the Gold GIPS matrix.

5.A.6 We propose to add the word “annual” for consistency’s sake:

“If a composite is formed using single asset carve-outs from multiple asset class composites the presentation must include the following:
• a list of the underlying composites from which the carve-out was drawn, and
• the percentage of the composite that is composed of carve-outs. As of 1 January 2006, the firm must disclose this information for each annual period (retroactively and going forward).

5.A.7 We propose to move 5A7 from the second sentence onwards to section 4 “Disclosures”, since it concerns a disclosure of methodology.

5.A.8 We propose the following change in wording:

“If a composite contains any non-fee-paying portfolios, the firm must disclose, as of the end of each annual period, the percentage of the composite assets represented by the non-fee-paying portfolios.”

5.B.1 We propose to change 5.B.1 as follows:

“The following items should be included in the composite presentation or disclosed as supplemental information:
(a) Gross-of-Fee composite performance,
(b) Annualized cumulative returns for composite and benchmarks for 1, 3, and 5 year periods,
(c) Annualized volatility over time of the aggregate composite return”

(a) is reworded so that it refers to the definition in the Glossary. (b) is maintained because of

the provisions of the Advertising Guidelines. And the word “annualized” is added in (b) and (c) to ensure consistent methodology across firms in reported returns and volatility.

5.B.2 This provision currently mixes risk measures and risk-return measures and calls them all risk measures. We therefore propose to change the wording to:

“Relevant composite-level risk measures such as beta, modified duration, credit ratings, tracking error, and Value-at-Risk and risk-return measures such as information ratio, Sharpe ratio, and Treynor Ratio should be presented along with total return for both benchmarks and composites for all periods presented.”

If you have any remarks given our comments please don't hesitate to contact us,

Kind regards,

Utrecht, 11 June 2004

Drs. Paul W.P. de Beus
Secretary VBA-IPM committee, The Netherlands