

CFA Institute
Professional Standards & Advocacy Department
Reference “Gold” GIPS
P.O. Box 3668
Charlottesville, VA
22903 U.S.A.

FAX: 1-434-951-5320
Email: standardsetting@aimr.org

Utrecht, 30 July 2004.

Dear IPC Members,

This letter is the second letter from VBA, the local Dutch sponsor of GIPS, regarding the “Gold GIPS proposal”. In this letter we respond to the general and specific questions of pages 4 and 5 of the “Gold GIPS proposal.” The first letter, which was sent to you on 11 June 2004, covered our specific comments on chapters 4 (Disclosures) and 5 (Presentation and Reporting). For your information we announce that our specific comments on other chapters will follow shortly.

For questions and/or comments, please contact the following individuals:

Corné Reniers, Chairman, VBA-IPM Committee, C.G.A.M.Reniers@robeco.nl
Paul de Beus, Secretary, VBA-IPM Committee, paul.de.beus@nl.ey.com

General comments

- 1) Do you support AIMR’s effort to revise and expand the GIPS standards?
Answer: VBA fully supports CFAI’s¹ efforts and will adapt VBA-PPS, The Dutch Translation of GIPS to reflect “Gold GIPS” after it has been endorsed.

- 2) Do you agree with the evolution process for the GIPS standards as outlined above?
Answer: We agree with the seven points of the action program of the CSSC. More importantly we agree in general with IPC’s policy to extend GIPS to cover more asset classes, to enhance it with requirements and recommendations on issues like we have seen over the past years.
The importance for the industry is that worldwide self regulation is preferable by far over national or regional regulation by law. Once Gold GIPS is endorsed new ideas about the GIPS evolution process are needed, which should focus on prospering this self regulation.

¹ For reason AIMR changed its name into CFA Institute reference to the organization is made in this letter by means of the abbreviation CFAI.

- 3) Is the language of the Standards straightforward and comprehensible? If not, how can it be improved?

Answer: We refer to our specific comments we gave in our letter of 11 June and in the letter that will follow shortly.

- 4) What modifications, if any, should be made to this proposal?

Answer: We refer to our specific comments we gave in our letter of 11 June and in the letter that will follow shortly.

- 5) Do you agree with the numbering and format of the proposed revised GIPS standards?

Answer:

part 1

We regard the easiness of getting access to the content of GIPS as a factor for success of GIPS. Numbering and format are in this respect important and should be straightforward. The use of different numbering and formats in different sections of GIPS is not helpful. Our advice is to use one uniform numbering format throughout the whole document.

part 2

We believe it would make a lot of sense to split the sections covering specific asset types (private equity, real estate) into the other sections. I.e. specific private equity issues concerning input data are dealt with in the input data section. That way, a logical organization of the standards is maintained.

- 6) Should AIMR consider any other methods for meeting the objectives of evolving the GIPS standards?

Answer: We agree with the methods applied to evolve the content of GIPS. Evolving the GIPS standards requires also promotion of GIPS and use of it by prospects, consultants and perhaps even clients. For this purpose CFAI should consider other methods although we recognize this is difficult and we do not have suggestions.

Specific Comments

- a) 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?

Answer: The conclusion from our internal discussion is that it is not absolutely clear if or when non-compliant information may be given. We do not mean the cases where non-compliant information is accompanying compliant information

in the form of supplemental information. We mean those cases where non-compliant information is given by it-self. The essence of the discussion is when the compliant firm explicitly is asked to provide some non-compliant information, like a RFP asking the performance of the best three portfolios, the firm must be allowed to do so. It is probably not workable and counter effective for the firm to say “we may not give that information, here is the composite report you must use.” If it is allowed to provide a prospect with non-compliant information in certain circumstances we feel it is not too onerous a burden to provide compliant presentations to all prospective clients.

- 2) Is the new requirement that mandates firms to provide a list and description of composites to any prospective client that makes such a request too onerous a burden for firms claiming compliance with the GIPS standards?

Answer: No.

- 3) Do you agree with the new recommendation that states the firm should not market a composite to a prospective client with assets less than the composite’s minimum asset level?

Answer: We do not agree. We understand the intention, but this requirement is formulated in too much detail. Doesn’t the same “problem” arise if there is no minimum asset level, but it just happens that the prospect has far less assets than the smallest portfolio in the composite? What if the investment process is perfectly sizeable, also for small portfolios, but for practical reasons a minimum asset level constraint is in place? What about prospective portfolios that are very big, perhaps too big to let the composite be an adequate representation of performance? Is the size of the prospective portfolio known early enough to meet the recommendation?

If one would want to do something here we would advocate a more general wording. Just for purpose of giving an example: “It is recommended the firm discloses between which minimum and maximum size of a portfolio the composite is representative.”

- 4) Do you agree with the new requirement that mandates firms to be prepared to provide a compliant presentation for any composite on the firm’s list of composites to a prospective client that makes such a request?

Answer: Principally we agree. We also agree with the wording “prepared”, which does not mean the firm is required to actually hand over any report to a prospect. The implication is therefore an implication for the internal organization which can be checked during the verification process.

The interpretation that should not be given to this requirement is that the firm must hand over compliant information upon request for any composite on the firm’s list of composites. After all, it must not be the case the investment manager can be forced to report composites he does not want to sell. One can think of composites that represent

a closed line of business or composites that contain portfolios with very specific constraints, which are not likely to be adequate for any other client. At first the requirement looks harmless if the investment manager chooses, for good reasons, not to come up with the report. But, since local GIPS police acts on complaints this requirement might not be that harmless after all.

- 5) Do you agree with the new requirement that requires firms to calculate composite performance by asset weighting the member portfolio returns at least monthly (beginning 2005)?

Answer: we agree.

- 6) 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?

Answer: For the sake of the credibility of GIPS we are not in favor of postponing this effective date. It also creates precedence for future postponement of other issue's effective dates. Regarding the content we feel that the treatment of cash is not the one and only issue about carve outs. Suppose one wants to carve an asset class out of a multi currency balanced portfolio. How should the result of currency forwards be treated? The problem is similar to the issue of cash. Perhaps the enhancement of the carve out issue with the issue of allocating currency positions is a valid argument to move the effective date, since systems will not be prepared by the initially mentioned date.

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

Answer: Yes, that is reasonable. It is our experience one relates this requirement often to the issue of pricing real estate, etc. It could be better clarified these topics are independent.

- 8) Should the GIPS standards require firms to retroactively disclose the following when carve-out segments are used?

- a) a list of the underlying composites from which the carve-out was drawn, and
- b) the percentage of the composite that is composed of carve-outs.

Answer: No, we do not see the need to require this retroactively.

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Utrecht, 30 July 2004.

Dear IPC Members,

We hereby send you the response of the VBA-IPM Committee, the Dutch Investment Performance Measurement Committee of the local sponsor of GIPS in the Netherlands, the VBA, to sections 6 and 7 of the proposed “gold” GIPS. Please note this is our third letter with comments on Gold GIPS.

For questions and/or comments, please contact the following individuals:

Corné Reniers, Chairman, VBA-IPM Committee, C.G.A.M.Reniers@robeco.nl
Paul de Beus, Secretary, VBA-IPM Committee, paul.de.beus@nl.ey.com

General Comments

The “gold” GIPS proposal entails the integral addition of the current Real Estate and Private Equity Guidance Statements to GIPS in the form of separate chapters.

Since the two Guidance Statements have already been approved, we do not believe it to be fruitful to try to reopen the discussion on the content of these Guidance Statements by revisiting the issues we raised at the time these Guidance Statements were circulated for comments. If the IPC wishes to review these comments, we invite the IPC to review our earlier submissions.

As a result, our focus here is on the organization and lay-out of GIPS with the addition of two separate chapters. We strongly believe that the clarity of GIPS will be strengthened by fully integrating these two chapters into the existing chapter structure of GIPS, because:

- i. it maintains the existing chapter structure in GIPS, which is very clear and logical. Adding two separate chapters on specific instrument types would eliminate this.
- ii. it recognizes that different types of instruments need to be treated differently, while adhering to the same basic principles that GIPS embodies.

- iii. it clarifies which general GIPS provisions are overridden for Private Equity and Real Estate and which are not. The first paragraphs of the proposed chapters list which specific provisions override GIPS provisions in the first five chapters, but it is not clear which provisions in the first five chapters are overridden.
- iv. it imposes standardization within GIPS in terms of terminology and level of detail. For example, the current Private Equity and Real Estate Guidance Statement sometimes go into a level of detail that is not symmetric with the first five chapters. At other times, they use terminology in a very specific sense even though the same term is generally used in the industry in a broader sense.

In the remainder of this response, we have aimed to provide a proposal that illustrates how chapters 6 and 7 can be integrated into the first five chapters without losing the content and intent of these Guidance Statements. The approach employs three methods:

- A. Integrate provisions from chapters 6 and 7 with existing provisions in the first five chapters.
- B. Add new provisions to the first five chapters.
- C. Add new provisions to existing Guidance Statements if the provision in chapter 6 or 7 are covered in GIPS as a general principle, but the specific application of the principle to Private Equity or Real Estate needs to be clarified.

If our proposal to integrate Chapter 6 and 7 into the first five chapters is not adopted, then all we wish to point out are the following:

- 1. Section II “Contents of the Global Investment Performance Standards” (p. 12) refers to a section “Private Equity and Venture Capital”. This section is, however, called “Private Equity”. We propose to eliminate “and Venture Capital” in the reference on page 12.
- 2. In the introductory paragraph to Chapter 7 “Private Equity”, the definition of Private Equity can be eliminated, since the term is already defined in the Glossary.
- 3. In the introductory paragraph to Chapter 7 “Private Equity”, it is not clear which provisions in the first five chapters of GIPS are overridden by the provisions from chapter 7.
- 4. In Chapter 6 requirement paragraph 6.A.3., it is not clear whether the source of the valuation can be partially internally, externally or obtained from a third party. In some situations subprojects of a real estate project can be valued at different times.

Specific Comments:

Chapter 7: Private Equity

The introductory paragraph can be eliminated

7.A.1 We propose to integrate this with 1.A.2 to read:

“Portfolio valuations must be based on market values (not cost basis or book values). Private equity investments must be valued in accordance with the GIPS Private Equity Valuation Principles.”

We recommend to add a statement clarifying where those valuation principles are located. Are they an integral part of GIPS? Perhaps it is an idea to change the name of that document to “Guidance Statement on Valuation”. Initially, it may only contain valuation principles for private equity, but this can be expanded over time. In that case, we recommend the following text for 1.A.2:

“Portfolio valuations must be based on market values (not cost basis or book values) and must comply with the Guidance Statement on Valuation.”

7.A.2 We propose to integrate 7.A.2. with 2.A.2 to read:

“For all portfolios except Private Equity portfolios, time-weighted rates of return that adjust for cash flows must be used. Periodic returns must be geometrically linked. Approximated time-weighted rates of return that adjust for daily-weighted cash flows must be used for periods beginning 1 January 2005. The firm must use a “true” Time-Weighted Rate of Return calculation method for periods beginning 1 January 2010. For Private Equity Portfolios, the annualized Internal Rate of Return Since Inception (SI-IRR) must be calculated, timing distributions daily and all other cash flows at least monthly.”

7.A.4 We propose to amend the definition of “Investment Management Fee” in the Glossary to include carried interest and to eliminate 7.A.4.

“The fee payable to the investment management firm for the on-going management of a portfolio. Investment Management Fees are typically asset based (percentage of assets), performance based (e.g. carried interest ~~based on performance relative to a benchmark~~), or a combination of the two, but may take different forms as well.

- 7.A.5 This is a general principle that is not specific to private equity, but occurs whenever an investment product is offered for sale by a party that uses another party to manage the product (e.g. fund of funds, reselling). The general principle is that, when you present net returns, they should be net of all management fees that you apply as well as net of all management fees that are paid to third parties.

What is not clear is how the existence of two investment management fees should be dealt with when presenting gross returns. Can you gross up for only the management fees that the firm receives, or also the management fees charged by third parties. And what if only the firm receives a management fee, but part of this fee is paid to an external manager? We propose that gross returns can be grossed up for the total investment management fee, whether this is paid to the firm or to a third party in order to maintain a level playing field between different product structures. Of course, in some products structures, it may be very difficult for the firm to determine what the total management fee paid is. If the firm cannot accurately calculate the management fee paid to third parties, then the firm should only be allowed to gross up for the part of the management fee that it can calculate, as with bundled fees.

We can therefore address 7.A.5. by refining the definition of “Investment Management Fee” to include both the fee payable to the firm and the fee payable to any third party:

“The fee(s) payable to the ~~investment management~~ firm or any third party for the on-going management of a portfolio. Investment Management Fees are typically asset based (percentage of assets), performance based (based on performance relative to a benchmark), or a combination of the two, but may take different forms as well.

7.A.5 can then be eliminated.

- 7.A.6 This provision describes how the general composite construction principle in 3.A.2 must be interpreted in the case of private equity. Rather than adding specific interpretations of 3.A.2 for different asset types to GIPS, we propose to move 7.A.6 to the Guidance Statement on Composite Construction.

- 7.A.7 We apply the same argument as for 7.A.6 and propose to move 7.A.7 to the Guidance Statement on Composite Construction.

- 7.A.8 See 7.A.9

- 7.A.9 We propose to integrate 7.A.9 with 7.A.8 into 4.A.30 as follows:

“The firm must disclose the inception date, and, if the composite has been terminated, the termination date of the composite.”

7.A.10 See 7.A.17

7.A.11 See 7.A.17

7.A.12 See 7.A.14

7.A.13 See 7.A.17

7.A.14 We propose to integrate 7.A.12 and 7.A.14 with 4.A.21 to read:

“4.A.21 The firm must disclose that the portfolio, composite, and benchmark calculation methods and valuation sources and procedures, including any changes therein over time, are available upon request.”

7.A.15 This is a specific interpretation of the more general composite construction principle contained in 4.A.24. We therefore propose to move 7.A.15 to the Guidance Statement on Composite Construction.

7.A.16 We believe that the existing disclosure and reporting requirements regarding benchmarks (e.g. 4.A.9, 4.A.11, 4.A.10, 4.A.21, 5.A.7) completely cover the content of 7.A.16 and therefore recommend to eliminate 7.A.16.

7.A.17 We propose to integrate 7.A.10, 7.A.11, 7.A.13 and 7.A.17 into a new provision in section 4, Disclosures:

“4.A.X For private equity composites, the firm must disclose:

- i. the unrealized gain/loss of the composite in the most recent period; and,
- ii. the total committed capital of the composite in the most recent period.
- iii. if a valuation basis other than fair value is used to value investments within the composite, the firm must disclose for the most recent period presented their justification for why fair value is not applicable. Additionally, the firm must disclose the following: (a) the carrying value of non-fair value basis investments relative to total fund, (b) the number of holdings valued on a non-fair value basis, and (c) the absolute value of the non-fair value basis investments.
- iv. if the presentation complies with any local or regional valuation guidelines in addition to the GIPS Private Equity Valuation Principles, the firm must disclose which local or regional guidelines have been used.

We also note that 7.A.17 uses the term “fair value”. This is the central valuation principle in the current version of GIPS, but is replaced by “market value” in the gold GIPS proposal. There are two alternatives: i. gold GIPS retains the term “fair value” by changing “market value” to “fair value” in 1.A.2, or ii. The term “fair value” in 7.A.17 is replaced by “market value”.

7.A.18 We believe this disclosure requirement should be broadened to cover any case where the firm does not use daily weighted cash flows (e.g. for pre-2001 performance). We therefore propose to add 7.A.18 in a modified form to section 4:

“4.A.X If, within the limits set by 2.A.2, the firm has chosen not to use daily weighted cash flows, then the firm must disclose the frequency and method used to weight cash flows.”

7.A.19 This is not just applicable to private equity composites, but to any composite that has a year-end other than calendar year-end. We therefore propose to move 7.A.19 to 4.A.X.

7.A.20 We propose to integrate 7.A.20 by adding the following clause to 5.A.1:
“The firm must present both the Net-of-fees and Gross-of-fees annualized SI-IRR of the composite for each year since inception.”

Note: Since the returns presented for private equity are not really annual returns, it may be useful to also revise clause c) of 5.A.1 accordingly.

7.A.21 See 7.A.22

7.A.22 We propose to integrate 7.A.21 and 7.A.22 into a single provision in section 5:

“5.A.X For private equity composites, the firm must report for each period presented:
(a) Paid-In Capital to date (drawn down);
(b) Total current Invested Capital; and,
(c) Cumulative Distributions to date; and,
(d) Total Value to Paid-In Capital (Investment Multiple or TVPI);
and,
(e) Cumulative Distributions to Paid-In Capital (Realization Multiple or DPI); and,
(f) Paid-In Capital to Committed Capital (PIC); and,
(g) Residual Value to Paid-In Capital (RVPI)

7.A.23 We believe that 5.A.7 adequately covers 7.A.23. Since vintage year is a required aspect of any private equity composite definition, a benchmark that is appropriate for the composite must reflect the same vintage year. We therefore propose to integrate 7.A.23 with 5.A.7.

7.B.1 We propose to incorporate 7.B.1 by modifying 1.A.3 to reflect that valuation frequency need not be the same for private equity as for other composites:

“1.A.3 All portfolios, except private equity portfolios, must be valued at least quarterly for periods prior to 1 January 2001, at least monthly for periods between 1 January 2001 and 1 January 2010, and at least monthly as well as on the date of any external cash flow for periods beginning 1 January 2010. Private equity portfolios must be valued at least annually.

Recommendation 7.B.1 can then be renumbered to 1.B.X.

7.B.2 This recommendation can be renumbered to 5.B.X

Chapter 6: Real Estate

The comments in the next chapter are an addition to the Private Equity issues that are described in the last chapter. We integrated the Real Estate issues with the Private Equity issues.

6..A.1 We propose to integrate this with 1.A.2 and 1.A.3 to read:

1.A.2.:

“Portfolio valuations must be based on market values (not cost basis or book values). Private equity investments must be valued in accordance with the GIPS Private Equity Valuation Principles.”

We recommend to add a statement clarifying where those valuation principles are located. Are they an integral part of GIPS? Perhaps it is an idea to change the name of that document to “Guidance Statement on Valuation”. Initially, it may only contain valuation principles for private equity, but this can be expanded over time. In that case, we recommend the following text for 1.A.2:

“Portfolio valuations must be based on market values (not cost basis or book values) and must comply with the Guidance Statement on Valuation.”

1.A.3:

“All portfolios, except real estate and private equity portfolios, must be valued at least quarterly for periods prior to 1 January 2001, at least monthly for periods between 1 January 2001 and 1 January 2010, and at least monthly as well as on the date of any external cash flow for periods beginning 1 January 2010.

Real Estate Investments must be valued at least once every twelve months. By 1 January 2008, real estate investments must be valued at least quarterly”. Private equity portfolios must be valued at least annually”.

6.A.2. We propose to integrate 6.A.2. into a single provision in section 1:

6.A.3. We propose to integrate 6.A.3.a,b,c,d,e,f and g into a new provision in section 4, Disclosures:

4.A.X. “Performance presentations for private equity real estate investments must disclose:

- a) The calculation methodology for component returns (i.e., component returns are a) calculated separately using chain-linked time weighted returns, or b) adjusted such that the sum of the income return and the capital appreciation return is equal to the total c) income cash recognition mode
- (b) The firm's descriptions of discretion,
- (c) The valuation methods and procedures (i.e., discounted cash flow valuation model, capitalized income approach, sales comparison approach, the valuation of debt payable in determining the value of leveraged real estate, etc.),
- (d) The range of performance returns for the individual accounts in the composite.
- (e) The source of the valuation (whether valued by an external valuer, internally prepared or whether values are obtained from a third party manager) for each period,
- (f) The percent of total market value of composite assets (asset-weighted not equallyweighted) total real estate assets valued by an external valuation for each period, and
- (g) The frequency real estate investments are valued by external valuers”.

it is not clear if the source of the valuation can be partially internally, externally or obtained from a third party. In some situations subprojects a real estate project can be valued at different times.

6.A.4. We propose to integrate 6.A.4 into a single provision in section 5:

“5.A.X For real estate composites, the income and capital appreciation component returns must be presented in addition to total return”.

6.B.1 The recommendation 6.B.1. can be renumbered to 1.B.X. as a result of our proposed incorporation o 6.A.1. with 1.A.3 reading.

:

“1.A.3

All portfolios, except real estate and private equity portfolios, must be valued at least quarterly for periods prior to 1 January 2001, at least monthly for periods between 1 January 2001 and 1 January 2010, and at least monthly as well as on the date of any external cash flow for periods beginning 1 January 2010..

Real Estate Investments must be valued at least once every twelve months. By 1 January 2008, real estate investments must be valued at least quarterly”. Private equity portfolios must be valued at least annually”.
folios, except private equity portfolios, must be valued at least quarterly for periods prior to 1 January 2001, at least monthly for periods between 1 January 2001 and 1 January 2010, and at least on the date of any external cash flow for periods beginning 1 January 2010. Private equity portfolios must be valued at least annually.

6.B.2. This recommendation can be renumbered in 1.B.X.

6.B.3. This recommendation can be renumbered in 1.B.X

6.B.4. This recommendation can be renumbered in 4..B.X

6.B.5., 6.B.6, 6.B.7 These recommendations can be renumbered in 5.B.X.adressing that these recommendations are applicable on real estate investments.

If you have any remarks regarding our comments, please do not hesitate to contact us.

Kind regards,

drs. Paul W.B. de Beus
Secretary, VBA-IPM Committee
The Netherlands

CFA Institute
Professional Standards & Advocacy Department
Reference “Gold” GIPS
P.O. Box 3668
Charlottesville, VA
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Utrecht, 5 August 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. In this letter we respond to sections “Introduction”, “Fundamentals of Compliance”, chapters 1 (Input Date), 2 (Calculation Methodology), 3 (Composite Construction) and the Appendix. Please note this is our fourth and final letter with comments on Gold GIPS.

- The first letter was sent to you on 11 June 2004 and covered our specific comments on chapters 4 (Disclosures) and 5 (Presentation and Reporting).
- The second letter (30 July) answered the questions of pages 4 and 5 of the "invitation to comment" document.
- The third letter (30 July) commented on Real Estate and Private Equity.

For questions and/or comments, please contact the following individuals:

Corné Reniers, Chairman, VBA-IPM Committee, C.A.G.M.Reniers@robeco.nl
Paul de Beus, Secretary, VBA-IPM Committee, paul.de.beus@nl.ey.com

General Comments

Intermediate changes to the proposal?

While reviewing Gold GIPS the VBA-IPM found that a change has been made, creating differences between the initial “Invitation for Public Comment on Gold GIPS” which was published last February and the current version (downloaded from the AIMR website last 2 August).

The alteration we found occurred on page 40, Appendix B bullet 4 and 5
In the current version available on www.aimr.com this states:

- “4. A description⁶ of the strategy of the composite being advertised.*
- 5. Period-to-date composite performance results*

6. *Composite performance results for either or both of the following time periods:...*”

While in the previous version it is stated:

“4. *A description of the strategy of the composite being advertised.*

5. *Period-to-date composite performance results in addition to either: ...*”

We would like to point out that most of our comments have been made on the “invitation to comment” document that was sent out by AIMR (now CFAI) in February. We also want to point out we did not check for other intermediate changes. It worries us that apparently in the mean time the proposed Gold GIPS have been adjusted. Our request to IPC and CFAI is to make clear to the public what other changes have been made after the initial invitation to comment.

Inconsistency in wording and footnotes

Wording:

PREAMBLE-WHY IS A GLOBAL STANDARD NEEDED?

The 2nd paragraph states: “*asset management*”

The 3rd paragraph states: “*investment managers*” and “*Firms*”

The 4th paragraph states: “*investment firms*” and “*firms*”

VISION STATEMENT:

The 5th paragraph states: “*investment managers*”

We propose to choose consistent wording.

The numbers of the footnotes mentioned in the text do not match with footnote numbers at the bottom of the page:

Footnotes ²⁻⁷ are exactly the same footnote. “*A description may be more abbreviated than the full definition, but should include all salient features.*”

The reference in the Disclosures 4.A.7. to a footnote ¹, though the footnote is numbered as number 3 and states: “³ *A description may be more abbreviated than the full definition, but should include all salient features.*”

Page 40 (Appendix B) in bullet:

Number 4. refers to “*definition*” footnote ⁶

Number 8. refers to “*definition*” footnote ⁵

Number 10. refers to “*definition*” footnote ⁷

We propose to adjust the references accordingly.

Comment on the footnote itself:

Footnotes²⁻⁷ “A description may be more abbreviated than the full definition, but should include all salient features.” indicates that a full definition is abbreviated. We suggest to alter the wording.

Section: Introduction

OBJECTIVES and IMPLEMENTING A GLOBAL STANDARD

- 1) “6. To obtain worldwide acceptance of a standard for the calculation and presentation of investment performance in a fair, comparable format that provides full disclosure.”
“23. One of the principal ...method for calculating and presenting investment performance.”

We propose to consider to remove the wording “calculation/ calculating” to put more emphasis on the fact these standards are ethical presentation standards and they are not calculation standards.

OVERVIEW:

- 2) “10.a GIPS are ethical standards for investment performance presentation to ensure fair representation and full disclosure of an investment manager’s performance.”

The claim of compliance is on the firm and not on a manager. Since “firm” is already used in statements 1 through 9 (thus prior to 10.a) it would be logical to alter this sentence to:

“GIPS are ethical standards for investment performance presentation to ensure fair representation and full disclosure of a firm’s performance history.

Section Fundamentals of Compliance:

- 4) In the comparison Matrix provided by AIMR it is mentioned:

FC.B.2: Firms are recommended to not market a composite to a prospective client with assets less than the composite’s minimum asset level.

This recommendation, although present in the comparison matrix, cannot be found in “Gold GIPS”.

Regarding this recommendation FC.B.2., we refer to our earlier submitted comments in Answers to Gold GIPS release questions, question number 3. (For your convenience copied below)

3) Do you agree with the new recommendation that states the firm should not market a composite to a prospective client with assets less than the composite's minimum asset level?

Answer: We do not agree. We understand the intention, but this requirement is formulated in too much detail. Doesn't the same "problem" arise if there is no minimum asset level, but it just happens that the prospect has far less assets than the smallest portfolio in the composite? What if the investment process is perfectly sizeable, also for small portfolios, but for practical reasons a minimum asset level constraint is in place? What about prospective portfolios that are very big, perhaps too big to let the composite be an adequate representation of performance? Is the size of the prospective portfolio known early enough to meet the recommendation?

If one would want to do something here we would advocate a more general wording. Just for purpose of giving an example: "It is recommended the firm discloses between which minimum and maximum size of a portfolio the composite is representative."

5) Gold GIPS reads:

FC.A.3: The firm must provide a compliant presentation to all prospective clients¹, i.e., the firm cannot choose to whom they want to present compliant performance. (As long as a prospective client has received a compliant presentation within the previous 12 months, the firm can present the prospect with interim performance information.)

1 The calculation and presentation of pooled unitized products, such as mutual funds and open-ended investment companies, is regulated in most markets. These vehicles are not subject to this requirement. (FC.A.3) when a firm is advertising performance solely for a pooled product.

We refer to our earlier submitted comments in Answers to Gold GIPS release questions, question number 1. (For your convenience copied below)

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?

Answer: The conclusion from our internal discussion is that it is not absolutely clear if or when non-compliant information may be given. We do not mean the cases where non-compliant information is accompanying compliant information in the form of supplemental information. We mean those cases where non-compliant information is given by it-self. The essence of the discussion is when the compliant firm explicitly is asked to provide some non-compliant information, like a RFP asking the performance of the best three portfolios, the firm must be allowed to do so. It is probably not workable and counter effective for the firm to say "we may not give that information, here is the composite report you must use." If it is allowed to provide a prospect with non-compliant information in certain circumstances we feel it is not too onerous a burden to provide compliant presentations to all prospective clients.

1. Input Data

1.A.5 We propose to replace the wording “fixed income securities and all other assets that accrue interest income” by “all assets that accrue interest income”:

*Accrual accounting must be used for all assets that accrue interest income.
Market values of such securities must include accrued income.*

1.A.8 According to this standard the firm must value portfolios as of the calendar month-end. A problem may arise when the last day of the month is not a trading day, or when the portfolio won't be valued on the last day of the month, but the benchmark will (for example in case of a local holiday). Furthermore, for clarity we propose to add that the firm must value the composite on the same date. Therefore, we propose to re-word this standard as follows:

For periods beginning 1 January 2006, the firm must value portfolios and composites as of the last Trading Day of the calendar month.

The definition of Trading Day should be included in the Glossary.

1.B.2 The meaning of the word accrue is not clear in our opinion.

2. Calculation Methodology

2.A.2 In our opinion it's not precisely defined what is meant by a 'true' Time-Weighted Rate of Return. For example, what is the requirement regarding valuation of the portfolio when a cashflow occurs: on the beginning of that day, or on the moment the cashflow occurs. If one requires the latter, it's possible a portfolio has to be valued several times on one day. In most performance measurement systems it's difficult to handle this.

We propose to eliminate the word 'true' and to add a definition of Time-Weighted Rate of Return to the Glossary:

Time-weighted rates of return that adjust for cash flows must be used. Periodic returns must be geometrically linked. Approximated time-weighted rates of return that adjust for daily-weighted cash flows must be used for periods beginning 1 January 2005. Firms must use a Time-Weighted Rate of Return calculation method for periods beginning January 1, 2010.

2.A.4 This standard allows a choice between using beginning-of-period values or a method that also reflects cash flows. The provision lacks the obligation to apply the chosen method consistently. We therefore propose to add the word 'consistently':

Composite performance must be calculated consistently by either asset-weighting the member portfolio returns using beginning-of-period values or a method that reflects both beginning of- period values and cash flows.

3. Composite Construction

We agree with the proposed standards.

Section Appendix:

- 1) Appendix A: SAMPLE PRESENTATION, bullet number 3
“ 3. valuations are computed in German marks and from Reuters.”

There is no clarification in which exchange rate was used for the last year 1999, in which the EURO was effective.

Also the 6th column in this presentations states “(Euro)” and not DM as the sample states in bullet number 3.

Please clarify / adjust the sample presentation in order to provide a complete/correct sample.

- 2) Appendix B: GIPS ADVERTISING GUIDELINES

Our comment regards clarity of GIPS as a whole. In our opinion GIPS has three layers: (1) the GIPS text itself, (2) Guidance Statements and (3) Questions & Answers. The status of “Guidelines” is unclear and in our opinion also unnecessary. If the Advertising Guidelines are given the status of a Guidance Statement (and therefore renamed as Guidance Statement) there is no need to include appendix B in GIPS. Furthermore, we feel, an appendix is not an appropriate place for including such important requirements. If it is felt these requirements belong to GIPS (the first/top layer) we recommend to include them in chapter 5 (Presentation and reporting).

If you have any remarks regarding our comments, please do not hesitate to contact us.

Kind regards,

drs. Paul W.B. de Beus
Secretary, VBA-IPM Committee
The Netherlands