



AFG-ASFFI

Paris, 18 December 2001

Dear Sirs,

**Comments of the French Experts Group on GIPS relating to the proposed Guidance Statement on the Definition of Composites**

The French Experts Group on GIPS was set up in October 2001 by the French Asset Management Association (AFG-ASFFI) and the French Financial Analysts Society (SFAF). Its purpose is to enable the exchange of views between professionals on issues arising from the implementation of GIPS and to act as an interface with the IPC and EIPC on these issues. The group comprises most of the French asset management companies implementing AIMR/GIPS standards in France.

The French asset management industry manages nearly 1,250 billion Euro of assets (representing 93% of the GDP of France) with 850 billion Euro through collective investment schemes, the balance being in the form of discretionary portfolio management.

We welcome the opportunity to comment on the guidance statement on the definition of composites. Our main concern on this paper relates to measurement periods. We understand that with effect from 1<sup>st</sup> April 2002, firms would be encouraged to value portfolios at month-end (which would be useful for comparability purposes). In particular, there would be a requirement for portfolios within a composite to have common beginning period and ending period valuation dates.

This proposal would be very difficult to implement in the French context due to local valuation requirements for investment funds.

Investment funds represent a significant part of the French asset management industry and many institutional investors invest through investment funds.

The French Regulation requires standard investment funds to be valued on a daily basis if the funds' assets exceed 80 million Euro. Investment funds with assets of less than 80 million Euro have to be valued at least every 2 weeks (generally they are valued on a weekly basis).

In all cases, investment funds are valued much more frequently than once a month. In addition, the regular mark to market NAVs (net asset values) enables an easy and non-biased calculation of time weighted performance returns for each fund. It would be a paradox to penalize investment funds with the proposed rule as they are already subject to more frequent valuations than segregated portfolios.

The problem arises for small funds with a weekly valuation. In this case, the date of the valuation may not coincide with the month end and various funds within the same composite may not have the same valuation period.

In many cases, the weekly valuation practise enables management companies to spread the valuation workload over the week by valuing different funds everyday. Therefore, we believe that it is inadequate to require the same beginning period and ending period valuation dates in all cases:

- Multiplying the number of composites (up to five composites for the same investment objectives and/or strategy) would impede a clear and fair presentation of the firm's composites;
- It would also be too costly to calculate month-end pro forma valuations between two "official" valuation dates just to ensure that the valuation dates of all funds included in the composite coincide, nor to impose daily valuation to all funds (including small funds which are not expected to be traded daily).

The requirement to calculate performance with the same beginning and ending periods could therefore significantly hinder the development of GIPS in France.

We believe that the current version of GIPS, requiring a monthly valuation without imposing the same beginning and ending periods, is sufficient.

We believe that three alternatives should be considered when a composite includes funds with differing valuation dates:

- the possibility to use the latest valuation, or the nearest valuation;
- the possibility of calculating a linear interpolation between the two nearest valuation dates before and after month-end;
- the possibility of adjusting between the two nearest valuation dates with the performance of the benchmark (benchmark linked adjustment).

The first two alternatives are actually used in France by most of the GIPS compliant firms. These well established practices have been endorsed by the leading verifiers operating in France.

At least, we believe that there should be a transition period to comply with the above requirement (same beginning and ending dates). It could be consistent with the transition period applying to the modified Dietz methodology allowing companies not to value portfolios after each inflows and outflows until 2010.

It is important to note that none of the proposed methods does have any resilient impact when linking sub-periods performance data. This is a major difference with the today accepted adjustment methods for cash-flows (under GIPS rule 2.A.2.).

In addition we suggest that the used methods are expected to be disclosed (under GIPS recommendation 4.B.2.).

We remain at your disposal for any additional information, which might prove useful to you.

Yours faithfully,

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*Chairman of the French Experts Group*