

**Performance Presentation Standards  
for  
Collective Investment Schemes**



**OICU-IOSCO**

Report of the Emerging Markets Committee  
of the  
International Organization of Securities Commissions

**December 2000**

## ***Introduction***

During its November 1997 meeting the IOSCO Emerging Markets Committee (EMC) gave to its Working Group on Investment Management (EMCWG-5) a mandate related to Performance Presentation Standards (PPS) for Collective Investment Schemes. A key objective of this mandate was to survey and assess the existing PPS in the jurisdictions of EMC members.

As a follow-up to the adoption of this mandate:

- A questionnaire (Appendix 1) was developed by EMCWG-5 and distributed to EMC members. Responses from EMC members were gathered starting in September 1999;
- A first analysis of the survey data took place in May 2000;
- The present report was completed during the following months. It was approved by the EMC during its 20 November 2000 meeting and was publicly released in December 2000.

The Association for Investment Management and Research (AIMR) has already adopted a core set of principles regarding PPS, namely the Global Investment Performance Standards (GIPS) (Appendix 2). Taking this previous work into consideration, EMCWG-5 decided to use those standards as a useful reference instrument within the framework of its PPS mandate.

The survey was aimed at the following main objectives:

- Determining the existence of domestic PPS in the jurisdictions of EMC members;
- Assessing their scope;
- Determining if the use of GIPS would be appropriate for the jurisdictions of EMC members

## ***Analysis of the responses to the Questionnaire***

In March 2000 seventeen EMC members had responded to the questionnaire circulated by EMCWG-5. This represented a relatively low sample (24%) with respect to the full EMC membership. EMCWG-5 therefore sought in May 2000 to get more responses from EMC members. As a result, the database was enlarged only slightly in October 2000 through the data provided by one additional member.

One EMC member however indicated that it was still designing its framework for collective investment schemes (CIS) and was therefore not able to answer the questionnaire. Thus, the overall database used for the preparation of this report is based on the responses gathered from EMC members from the following jurisdictions: Albania, Argentina, Bahamas, Brazil, Hungary, Latvia, Malaysia, Paraguay, Peru, Poland, Singapore, South Africa, Thailand, Tunisia, Turkey, Uruguay and Venezuela.

The database shows some degree of geographical concentration. More than one third of the responses (6) come from South American jurisdictions. In the preparation of this report EMCWG-5 assumed that a majority of EMC members, which did not provide data for the survey, simply do not have markets sufficiently developed to justify putting in place specialized regulatory standards addressing PPS for CIS.

The next section contains an analysis of the responses received to each of the survey questions<sup>1</sup>.

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<sup>1</sup> Please note that to decimal rounding, some answers may sum 101% rather than 100%.

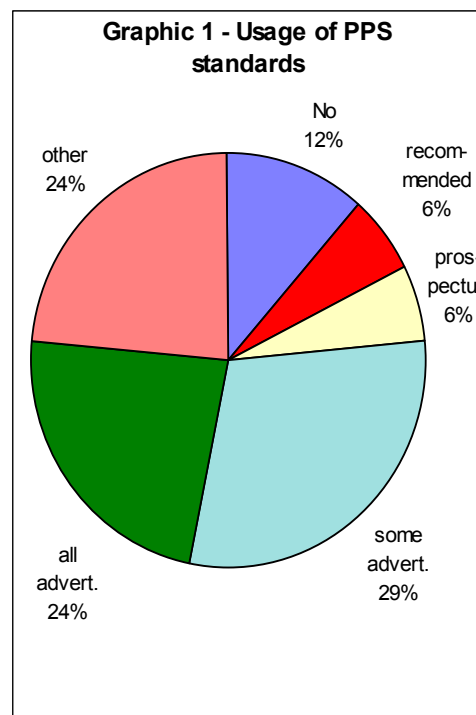
**Question 1 - Does your jurisdiction prescribe the usage of Performance Presentation Standards for Mutual Funds Advertisement?**

Usage of PPS standards is prescribed in 59% of the jurisdictions. Of those, 6% require its use only in the prospectuses, 29% on some advertisement and 24% in all advertisement material. In addition, 6% of the jurisdictions recommend PPS usage. 12% do not address the issue at all, while 24% stated that other conditions apply. Jurisdictions that answered “other” in this question addressed the issue as following:

- regulation on the issue is being developed in one jurisdiction
- the second jurisdiction stated that investment companies should prepare annual and six-month reports of mutual funds. In these reports, a comparison with the previous period shall be included.
- The third jurisdiction answered that certain conditions related to the date of the authorization of the mutual fund shall be observed for marketing.
- The last jurisdiction answered that PPS standards depend on the type of the fund

Graphic and table of the answers to question 1 as follows:

Country	No	recom- mended	Yes			other
			pros- pectus	Some Advert.	All advert.	
Albania						X
Argentina	X					
Bahamas		X				
Brazil				X		
Hungary			X			
Latvia						X
Malaysia					X	
Paraguay					X	
Peru				X		
Poland						X
Singapore					X	
South Africa				X		
Thailand					X	
Tunisia				X		
Turkey						X
Uruguay				X		
Venezuela	X					
<b>TOTAL</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>5</b>	<b>4</b>	<b>4</b>
<b>%</b>	<b>12</b>	<b>6%</b>	<b>6%</b>	<b>29%</b>	<b>24%</b>	<b>24%</b>





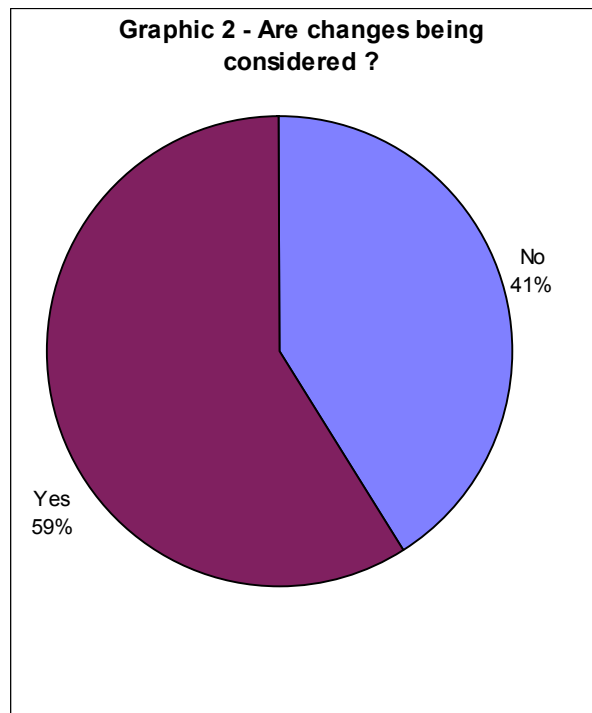
**Question 2 - Are changes being considered in this area?**

Changes are being considered in 59% of the jurisdictions. On the other hand, 41% answered that they are not considering any changes in this area.

The jurisdictions which answered that changes were being considered, mentioned the following areas for change: disclosure, standardization on presentation results (mentioned by two countries), setting or improving advertisement rules (mentioned by four countries). Examples of this last item include code of advertising improvement and the introduction of a mandatory disclaimer in all advertisement mentioning the existence of the prospectus.

One jurisdiction (Latvia) mentioned specifically that it wishes to incorporate GIPS into domestic legislation.

Country	No	Yes
Albania		X
Argentina	x	
Bahamas	x	
Brazil	x	
Hungary		X
Latvia		X
Malaysia		X
Paraguay	x	
Peru		X
Poland		X
Singapore	x	
South Africa		X
Thailand	x	
Tunisia		X
Turkey		X
Uruguay	x	
Venezuela		X
<b>TOTAL</b>	<b>7</b>	<b>10</b>
<b>%</b>	<b>41%</b>	<b>59%</b>

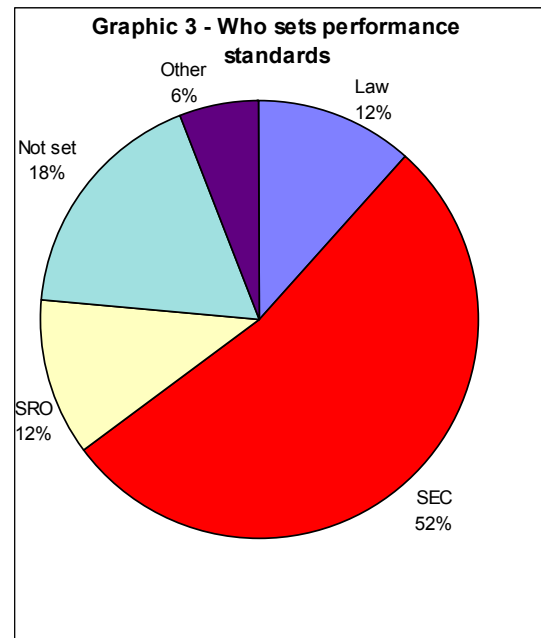


**Question 3 - Are Performance Standards set by:**

In the majority of jurisdictions (53%), PPS regulators are set by their corresponding national securities regulator (defined as “SEC” in the table below). PPS are set by Law in two countries (12%), while the same number of jurisdictions mentioned self-regulatory organizations (SROs) as the entities responsible for setting such standards.

Performance is not set in three jurisdictions (one of those mentioned the fact that the manager set the standards). The “other” answer provided by Malaysia refers to the fact that the local securities commission regulates only issues related to advertising.

Country	Law	SEC	SRO	Not set	Other
Albania		X			
Argentina				X	
Bahamas				X	
Brazil		X			
Hungary	X				
Latvia		X			
Malaysia					X
Paraguay		X			
Peru		X			
Poland	X				
Singapore		X			
South Africa			X		
Thailand			X		
Tunisia		X			
Turkey		X			
Uruguay		X			
Venezuela				X	
<b>TOTAL</b>	<b>2</b>	<b>9</b>	<b>2</b>	<b>3</b>	<b>1</b>
<b>%</b>	<b>12%</b>	<b>53%</b>	<b>12%</b>	<b>18%</b>	<b>6%</b>

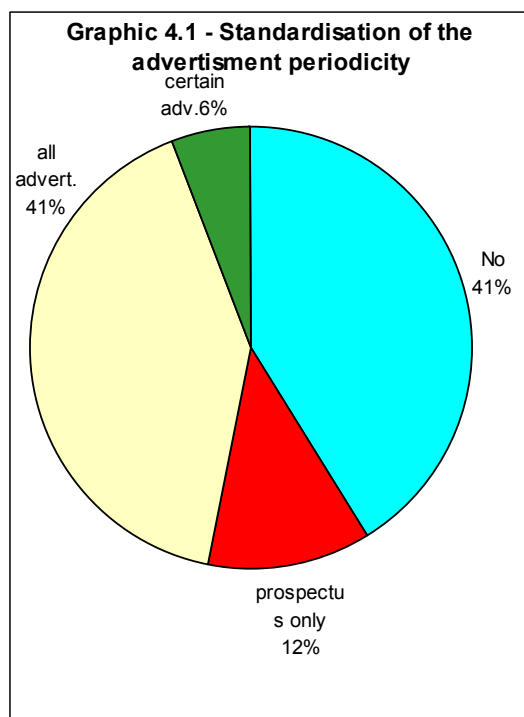


*Question 4.1 - Sometimes, fund managers tend to use for marketing purpose the period of the best performance of the fund. Does your jurisdiction require standardization of the period the performance presented in advertising?*

The standardization of the performance period is not required in 41% of the jurisdictions surveyed and is required in 59% (10 jurisdictions). In addition, the minimum period of operation required before a mutual fund presents its performance to the public ranges from 6 months to 5 years, and averages nearly one year and seven months.

However, the use of a minimum period of operation varies: 12% require that it be presented only in the prospectuses, 41% in all advertising material and 6% in some types of regulated publicity. The response provided by Turkey refers to the fact that only advertising, which includes comparisons, must comply with this rule.

Country	No	Yes			
		pros- pectus	all advert.	certain advert.	(1) min. period
Albania	x				
Argentina	x				
Bahamas	x				
Brazil			x		0,5
Hungary	x				
Latvia	x				
Malaysia		x			5
Paraguay	x				
Peru			x		0,5
Poland		x			3
Singapore			x		3
South Africa			x		1
Thailand			x		0,25
Tunisia			x		1
Turkey				x	0,5
Uruguay	x				
Venezuela			x		1
<b>TOTAL</b>	<b>7</b>	<b>2</b>	<b>7</b>	<b>1</b>	
<b>%</b>	<b>41%</b>	<b>12%</b>	<b>41%</b>	<b>6%</b>	
<b>AVERAGE</b>					<b>1,58</b>





*Question 4.2 - Performance must also be presented in the following format:*

This question was answered only by those members, which answered “yes” in question 4.1, i.e. 10 jurisdictions or 59% of the sample.

In this question, multiple answers were allowed. This means that a jurisdiction, which assigned both 6 months and 1 year periods, requires both information to be presented. 5 jurisdictions reported the mandatory use of one single period. In three of those, the period chosen was one year.

4 jurisdictions actually require more than one period to be presented. In the case of Singapore, this includes periods of performance of 3 months, 6 months, 1 year, 3 years and 10 years. The “other” answer reported by Brazil refers to the fact that a last 6 months period (not necessarily July or December) is required for performance presentation purposes.

5 jurisdictions (50% of the jurisdictions to which this section applies and 30% of the total sample) also address the mandatory comparison of the mutual fund with an assigned market benchmark, which allows potential and actual unit holders to see if the fund outperforms the market. The mandatory use of graphs and tables in an assigned format is prescribed in each case in one jurisdiction.

Country	Periodicity						Format		
	1month	3month	6month	1 year	above	other	bench- mark	graphs	tables
Albania									
Argentina									
Bahamas									
Brazil						x	x		
Hungary									
Latvia			x						
Malaysia				x			x		
Paraguay									
Peru			x	x					
Poland		x	x	x					x
Singapore		x	x	x	x		x		
South Africa	x	x					x	x	
Thailand				x			x		
Tunisia		x							
Turkey									
Uruguay									
Venezuela				x					
<b>TOTAL</b>	<b>1</b>	<b>4</b>	<b>4</b>	<b>6</b>	<b>1</b>	<b>1</b>	<b>5</b>	<b>1</b>	<b>1</b>

%	6%	24%	24%	35%	6%	6%			
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*Question 4.3 - If a fund exists for a period lower than that described in question 4.1:*

This issue was addressed by 6 jurisdictions (60% of the 10 jurisdictions, which answered question 4.1 and 35% of the total sample).

2 stated that marketing is not allowed. Of the remaining four allowing marketing, 1 mentioned that a disclaimer must be provided and one stated that the advertisement. The remaining 2 reported that both conditions must be fulfilled.

Country	Issue not addressed	Marketing is not allowed	A disclaimer must be provided	Advertisement must be provided since the beginning of the fund
Albania	x			
Argentina	x			
Bahamas	x			
Brazil	x			
Hungary	x			
Latvia	x			
Malaysia		x		
Paraguay	x			
Peru		x		
Poland			x	x
Singapore			x	x
South Africa			x	
Thailand	x			
Tunisia				x
Turkey	x			
Uruguay	x			
Venezuela	x			
<b>TOTAL</b>	<b>11</b>	<b>2</b>	<b>3</b>	<b>3</b>
<b>%</b>	<b>65%</b>	<b>12%</b>	<b>18%</b>	<b>18%</b>

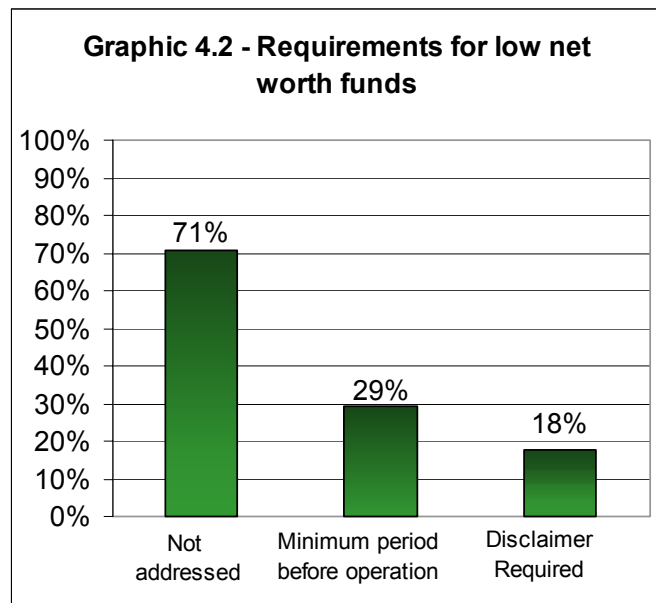
Note: According to the direction of the original questionnaire, this question was only supposed to be answered by those answering yes to question 4.1. However, in order to allow comparison of the whole set of responses, those not answering were included as "not addressed".

*Question 4.4 - Sometimes, when a fund begins operation with a very low net worth, it is capable of outstanding results that will probably not repeat when the funds actually begins marketing operations:*

This issue was addressed again by 6 jurisdictions (60% of the 10 which answered question 4.1 and 35% of the total sample).

Five jurisdictions require a minimum period of operation, ranging from four months to one year, before marketing is allowed. In three of those jurisdictions, an additional disclaimer is also required.

Country	N/R	Minimum period	disclaimer
Hungary	x		
Poland	x		
Thailand		0,25	x
Bahamas	x		
Peru		0,5	
Argentina	x		
Tunisia	x		
Paraguay	x		
Sinagapure		1	
Turkey	x		
Venezuela	x		
Malaisia	x		
Latvia	x		
Albania	x		
South Africa		0,5	x
Uruguay	x		
Brasil		0,5	x
<b>TOTAL</b>	<b>12</b>	<b>5</b>	<b>3</b>
<b>%</b>	<b>71%</b>	<b>29%</b>	<b>18%</b>
<b>AVERAGE</b>		<b>0,55</b>	



*N/R= Not required  
Minimum Period Expressed in years*

Note: According to the direction of the original questionnaire, this question was only supposed to be answered by those answering yes to question 4.1. However, in order to allow comparison of the whole set of responses, those not answering were included as "not required"

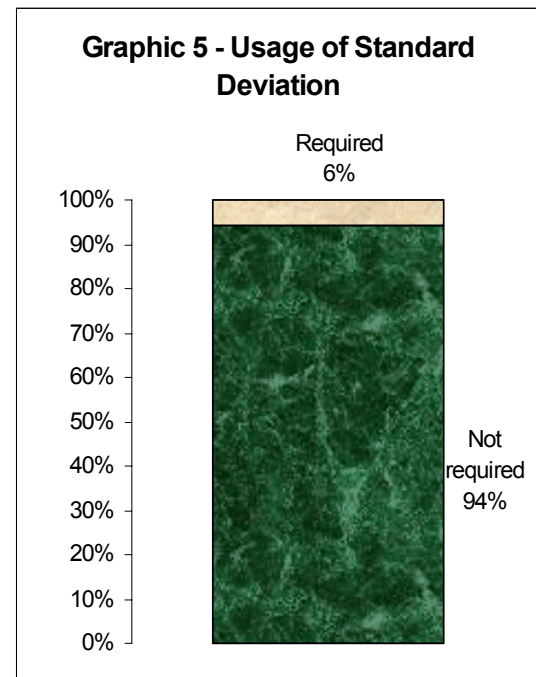
**Question 5 - Concerning the usage of volatility, what is prescribed?**

The volatility level of the rate of return of mutual funds is a significant criteria used for investment decision. Therefore, low volatility levels are readily associated with reduced investment risks.

However, only one jurisdiction indicated that it requires a mandatory reporting of volatility by mutual funds. In Singapore, the presentation of a standard deviation of the returns is required for 1, 3 and 5 year periods.

The main reason why other jurisdictions may not address this issue is the fact that this concept is rather difficult to understand for the average investor. This situation could be improved through investor education.

Country	N/R	SD mandatory for		
		same period*	other period	other than SD
Albania	x			
Argentina	x			
Bahamas	x			
Brazil	x			
Hungary	x			
Latvia	x			
Malaysia	x			
Paraguay	x			
Peru	x			
Poland	x			
Singapore			x	
South Africa	x			
Thailand	x			
Tunisia	x			
Turkey	x			
Uruguay	x			
Venezuela	x			



	94%	0%	6%	0%

N/R= Not required

\*The same period informed in question 4.2

SD= Standard Derivation

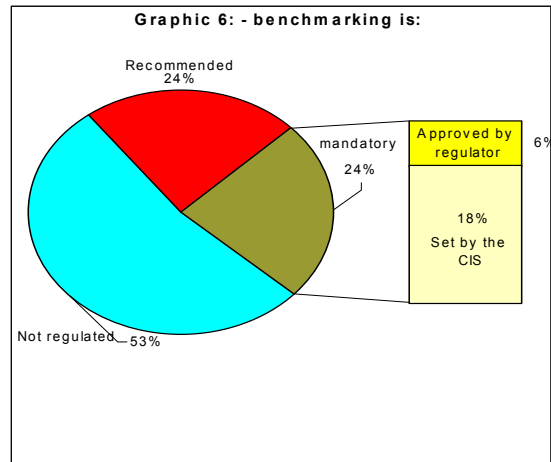
*Question 6 - Some funds use benchmarks in order to enable shareholders to compare their performance. In your jurisdiction benchmarking is (multiple answers allowed):*

Benchmarking is the use of a market index as a base reference to compare with the fund. For 53% of the jurisdictions surveyed benchmarking is not required and for 23% it is only recommended.

that it is required in certain advertisement and two require its use in all advertising. If the benchmark changes, three jurisdictions require that a letter to the shareholders be send in order to inform of the change.

The issue is addressed in another 23% (four jurisdictions). In one of those, the benchmark must be approved by the regulator, while in the remaining it is freely set by the fund.

One of those four jurisdictions mentioned that benchmarking must be used in the prospectus only, another



Country	Not req.	Recom- mended	Mandatory		Must be used			Changes disclosure		
			regulator approve	set by CIS	pros- pectus	all advert.	certain advert.	News- paper	letter	other
Albania		x								
Argentina	x									
Bahamas	x									
Brazil				x			x		x	
Hungary	x									
Latvia	x									
Malaysia		x								
Paraguay		x								
Peru	x									
Poland	x									
Singapore				x	x				x	
South Africa				x			x		x	
Thailand			x				x			
Tunisia	x									
Turkey		x								
Uruguay	x									
Venezuela	x									

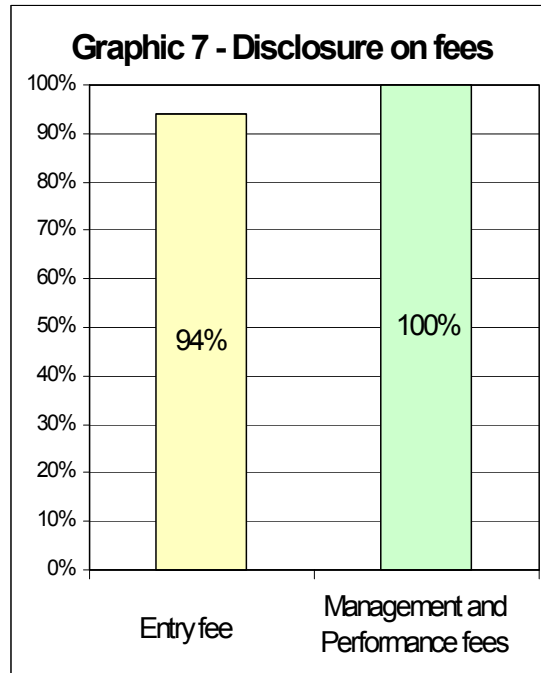
TOTAL	9	4	1	3	1	2	1	0	3	0
%	53%	24%	6%	18%	6%	12%	6%	0%	18%	0%

**Question 7 - Concerning fees that funds charge to shareholders  
(Multiple answers are allowed):**

The totality of the jurisdictions surveyed require disclosure of the management and performance fee. Except for one, this situation is also applicable for entry fees.

15 jurisdictions (88%) require changes in the fees to be disclosed, either through newspapers, letter to the shareholders or other media, including a combination of those in 7 countries.

The performance fee, levied by the manager when a fund outperforms a benchmark, should be calculated net of other expenses. This was addressed by 6 jurisdictions (35%), which require single or multiple exclusion of other fees.



Country	Clear disclosure		Changes disclosure			Performance must exclude			
	entry Fee	Mng/Perf Fee	News-paper	letter	other	Mngm. fee	Perf. Fee	income tax	other
Albania	x	x	x	x					
Argentina	x	x	x		x				
Bahamas	x	x		x	x				
Brazil	x	x		x		x	x		x
Hungary	x	x	x						
Latvia	x	x	x						
Malaysia	x	x			x				
Paraguay	x	x			x				
Peru	x	x		x		x			
Poland	x	x	x		x			x	
Singapore	x	x		x		x	x	x	x
South Africa	x	x		x	x				
Thailand	x	x	x	x		x	x	x	x
Tunisia	x	x							
Turkey	x	x	x	x					
Uruguay	x	x		x		x	x		
Venezuela		x							

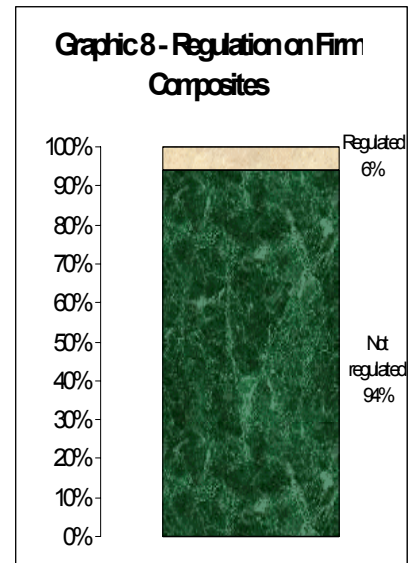
TOTAL	16	17	7	9	6	5	4	3	3
%	94%	100%	41%	53%	35%	29%	24%	18%	18%

*Question 8 - Concerning firm composites (advertising material where more than one fund is presented), the issue is:*

A management firm may actually manage more than one mutual fund. This firm may only present the performances of the best fund(s) that it manages. In this situation, the investors are not able to adequately evaluate the overall performance of the fund manager. When a manager is required to disclose all the funds it manages within a certain category, this is called firm composites regulation.

In our sample, this issue is only regulated in Brazil, which requires all funds in the same category to be disclosed in advertisement material (all of them in a minimum statistical period of six months).

Country	Not regulated	Regulated				
		minimum period of	active (1)	terminated (2)	consistency required	other
Albania	x					
Argentina	x					
Bahamas	x					
Brazil		0,5	x			
Hungary	x					
Latvia	x					
Malaysia	x					
Paraguay	x					
Peru	x					
Poland	x					
Singapore	x					
South Africa	x					
Thailand	x					
Tunisia	x					
Turkey	x					
Uruguay	x					
Venezuela	x					
<b>TOTAL</b>	<b>16</b>		<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>%</b>	<b>94%</b>		<b>6%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>



- (1) All active portfolios from a determined category must be disclosed
- (2) Terminated portfolios must be disclosed until the last period they existed



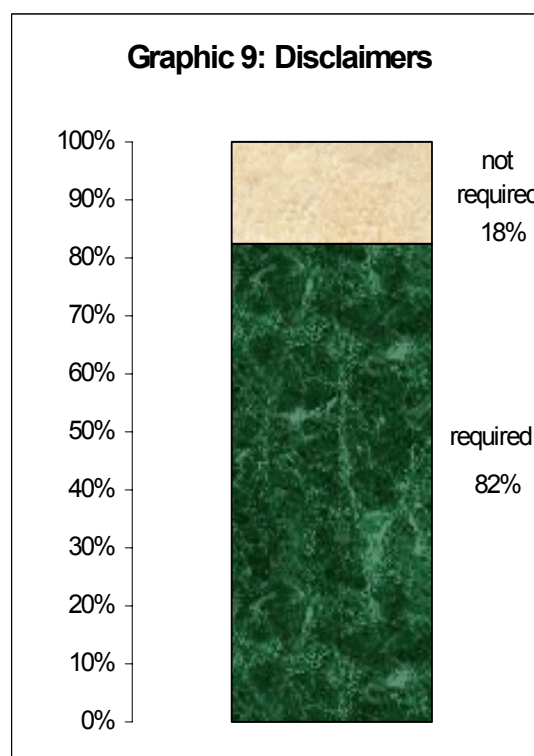


**Question 9 - Does your jurisdiction require the usage of disclaimers in advertisement ?**

Disclaimers are messages warning consumers in advertising materials. They are required by 82% (14) of the jurisdictions surveyed. The most common one, used by 10 jurisdictions is “past results do not necessarily have relation with future results”. In addition, in 4 jurisdictions funds must use the message “mutual funds may present negative results”, while 2 use a warning stating that in very risky funds (highly leveraged), an investment can result in losses above the initial investment, a situation that can happen only in derivatives markets.

Ten jurisdictions reported use of other disclaimers, such as: “Before investing, investors should study the prospectus of the fund”, “no projections on futures returns may be included”, “if you are in doubt, contact your stockbroker, manager, counsel or attorney or other financial advisor”, “this investment is not guaranteed by a guarantee fund or other type of insurance”, “profits are not guaranteed”, “the price of units may go up or down”, “regulator’s supervision does not imply that it guarantees the investment”, after return marketing: “return of shares that remain unrescued in the period”, “any advertisement material should contain information on the investment risk”, “where a unit or split is declared, investors are advised that following the distribution of additional or bonus units the net asset value per unit will be reduced”.

Country	No	Yes			
		(1)	(2)	(3)	other
Albania					X
Argentina	X				
Bahamas		X			X
Brazil		X	X	X	X
Hungary	X				
Latvia					X
Malaysia		X			X
Paraguay	X				
Peru		X	X		X
Poland					X
Singapore		X	X	X	X
South Africa		X			X
Thailand		X			X
Tunisia			X		
Turkey		X			
Uruguay		X			
Venezuela		X			
<b>TOTAL</b>	<b>3</b>	<b>10</b>	<b>4</b>	<b>2</b>	<b>10</b>



%	18%	59%	24%	12%	59%
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(1) Past results do not necessarily have relation with future results  
 (2) mutual funds may present negative results

(3) you may lose more than your investment in high leverage funds

*Question 10.1 - Attached, please find a copy of the Global Investment Performance Standards (GIPS), which are divided into five parts. Comparing these standards with your domestic regulation, report the level of compliance? (if your answer is different from no compliance or full compliance, please provide detailed information).*

This question aimed at detecting compliance level for each of the five GIPS sections, namely, input data, calculation, composite, disclosure and presentation (the requirements for compliance to those five sections are reproduced in Appendix 2). Jurisdictions were required to provide a self-evaluation based on the following criteria:

- 0- No compliance/Not regulated
- 1- Compliance to less than half of GIPS items
- 2- Compliance to around half of GIPS items
- 3- Compliance to more than half of GIPS items
- 4- Full compliance of GIPS items

Twelve jurisdictions (70%) provided a self-evaluation. The average compliance level to GIPS was 41%, but it varied substantially from section to section. While compliance level with respect to the “input data” section reached 75%, it remained as low as 25% with respect to the “composite” section. A very low compliance level (27%) was identified with respect to the key GIPS standards presented in the “calculation” section.

Country	Compliance level to GIPS sections *					Not answered
	Input data	Calculation	Composite	disclosure	Pre-sentation	
Albania						X
Argentina						X
Bahamas						X
Brazil	4	2	1	2	1	
Hungary	4	0	2	0	0	
Latvia	3	2	2	3	2	
Malaysia	0	0	0	0	0	
Paraguay	2	0	0	2	3	
Peru	2	2	1	2	2	
Poland	3	0	0	1	0	
Singapore	4	3	N/A	3	3	
South Africa	2	2	2	2	2	
Thailand	4	2	1	3	1	
Tunisia						X
Turkey						X
Uruguay	4	0	0	0	0	
Venezuela	4	0	2	2	3	
<b>AVERAGE</b>	<b>3,0</b>	<b>1,1</b>	<b>1,0</b>	<b>1,7</b>	<b>1,4</b>	<b>29%</b>
<b>Compliance %</b>	<b>75%</b>	<b>27%</b>	<b>25%</b>	<b>42%</b>	<b>35%</b>	

SD	1,2	1,1	0,9	1,1	1,2	
<b>Average compliance to GIPS in the 5 sections:</b>					<b>4</b>	

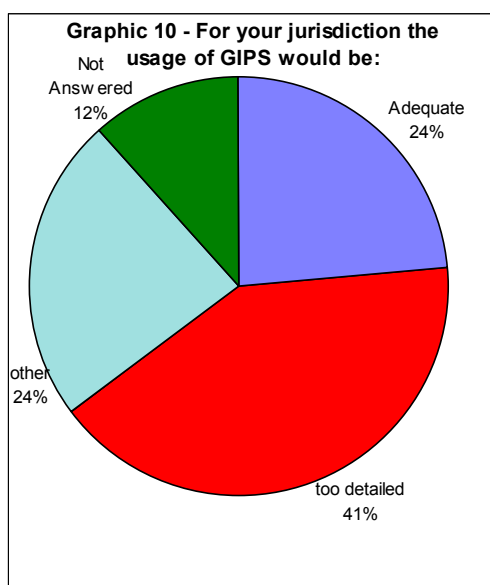
*Question 10.2 - Do you think GIPS is:*

This question’s objective was to assess what members thought about the use of GIPS in their jurisdictions.

2 members (12%) did not provide their views about this issue, while 24% expressed the view that GIPS were adequate for their jurisdictions. The vast majority (41%) stated that GIPS are too detailed for the current level of development of their markets. No member considered GIPS as incompatible with domestic regulation. This leaves room for the potential use of GIPS as useful guidance for the development of PPS for CIS in the domestic regulation of the jurisdictions of EMC members.

4 jurisdictions selected “other” as their answer: this includes the need for deepening studies on this issue, perception of excessive focus of GIPS on composites, the fact that self-regulation should be used to cover some issues, and comments that GIPS are more adequate for liquid markets.

Country	Adequate	detailed (1)	incom- patible (2)	other	Not answered
Albania		X			
Argentina					X
Bahamas				X	
Brazil				X	
Hungary		X			
Latvia		X			
Malaysia				X	
Paraguay		X			
Peru				X	
Poland		X			
Singapore	X				
South Africa	X				
Thailand		X			
Tunisia					X
Turkey	X				
Uruguay		X			
Venezuel a	X				
<b>TOTAL</b>	<b>4</b>	<b>7</b>		<b>4</b>	<b>2</b>
<b>%</b>	<b>24%</b>	<b>41%</b>	<b>0%</b>	<b>24%</b>	<b>12%</b>



(2) Some parts are incompatible with the local legal framework

(1) Too detailed for the current stage of development

Finally, question 11 inquired if there was a domestic association dealing with mutual funds and PPS in the jurisdictions surveyed. Appendix 4 presents the responses collected i.e. name, contact person, address, and contact details of the domestic association, when it exists.

## Conclusions

It is important to mention that the CIS industry in most emerging markets is very embryonic. Investment Company Institute (ICI) data (appendix 3) states that in 1999 a total of US\$ 12.2 trillions was channeled in mutual funds in a sample of 36 jurisdictions in which the industry has developed.

Of this sample, US\$ 7.3 trillions (60%) was invested in the US mutual fund industry alone. Another US\$ 3,5 trillions (29%) channeled to the remaining jurisdictions represented on the IOSCO Technical Committee Members. US\$ 985 (8%) billions went to the CIS industry in jurisdictions other than represented on the Technical Committee or on the EMC. Only US\$ 364 (3%) billions went to the jurisdictions of 12 of the EMC members.

Within the jurisdictions of EMC members there is wide spectrum of development levels<sup>2</sup>. Brazil and Korea alone represent a CIS industry of US\$ 291 billions, i.e. 80% of the savings invested in the CIS industry of the above-mentioned 12 EMC jurisdictions surveyed<sup>3</sup>. The CIS industry of the ten remaining EMC jurisdictions surveyed only channeled approximately 0,5% of the total US\$ 12.2 trillions tracked in the ICI statistics.

It light of this data, it is reasonable to conclude that the jurisdictions of most EMC members do not have a significant CIS industry. Several are just in the process of drafting basic domestic regulation<sup>4</sup> and a significant part of the EMC members, which did not answer the questionnaire, come from developing markets belonging to eastern Europe and former USSR. The level of market development in numerous EMC jurisdictions has simply not reached a point where the drafting and implementation of PPS for CIS is a key regulatory issue. It will eventually become one in the future when the CIS industry achieves in those jurisdictions a certain level of maturity.

The jurisdictions surveyed in this report represent a good sample of those within the EMC, which have a developed CIS industry.

The mandatory usage of PPS is required in the majority of the jurisdictions surveyed (59%) (ref. Question 1).

The main regulators of PPS standards were identified as the national securities commissions (52%). SROs and other bodies were mentioned by 24% of the surveyed jurisdictions as the main regulators of PPS (ref. Question 3).

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<sup>2</sup> This was also a conclusion reached by EMCWG-5 in studies on CIS cross-border activities and on Asset Valuation and Pricing.

<sup>3</sup> Each of those two jurisdictions has a larger CIS industry than four of the jurisdictions represented on the IOSCO Technical Committee.

<sup>4</sup> Kenya and Albania reported this situation in their respective answers to the questionnaire.

Some specific issues, such as the mandatory disclosure of fees, were addressed by almost all regulators. An analysis of the responses to question 7 shows that 100% of surveyed jurisdictions require disclosure of management and performance fees. 94% also require disclosure of entry fees. The mandatory use of disclaimers is also widely required (82%) (ref. Question 9).

It is interesting to note the responses provided to Questions 5 and 8 show that volatility and composite portfolios are issues, which are seldom addressed in the EMC jurisdictions surveyed. It appears that the CIS industry needs to reach a further step in its development before regulators worry about the introduction of related regulation. 59% of the jurisdictions surveyed report that they are considering the development of their regulation on PPS standards (ref. Question 2).

The use of benchmarking (ref. Question 6) is mixed. 53% of the jurisdictions do not regulate this issue, while 24% do and another 24% recommend that it be done. 59% of the jurisdictions surveyed require the standardization of performance presentation periods (ref. Question 4).

The key issue of the adoption or not of GIPS by EMC jurisdictions is considered in the analysis of the responses to Question 10. The use of GIPS by EMC jurisdictions appears to be considered adequate by only 24% of the EMC members, while 41% consider such standards as too detailed for the level of development of their markets. In addition, compliance to GIPS varies substantially on a section-by-section basis. While the “input data” section reaches an average level of compliance of 75%, compliance to the “calculation” and “composite experience sections is lower than 30%.

Taking into consideration the different types of legal framework presently in place in EMC jurisdictions along with the varying degrees of development of their CIS industry, the EMC recommends to its members that GIPS be used as a complementary guide in the development of their regulation.

## APPENDIX 1 - QUESTIONNAIRE

*This questionnaire, approved in November 1999, was prepared within the framework of the EMCWG-5 mandate on Performance Presentation Standards for Collective Investment Schemes. EMCWG-5 thanks all the EMC members that will answer this questionnaire. The overall survey results will be affected by the number of answers received. Please e-mail the answers to intl@cvm.gov.br or fax it to 55 21 212-0292 before to March 1, 2000.*

### IDENTIFICATION:

Country \_\_\_\_\_

Regulator's Name \_\_\_\_\_

Name of the person responsible for the answers \_\_\_\_\_

E-mail or fax number of the person above \_\_\_\_\_

### QUESTIONS:

**1 - Does your jurisdiction prescribe the usage of Performance Presentation Standards for Mutual Funds Advertisement ? (If yes is answered, we would be pleased if a summary with the key points of the rules is attached)**

- No
- Yes, as recommendation
- Yes, but only in the prospectus
- Yes, mandatory for some types of advertisements (please explain)
- Yes, standards are mandatory for all advertisement practices
- Other (please explain)

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**2 - Are changes being considered in this area?**

- No



Yes (Please explain)

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*Please answer the following questions if yes was answered in question 1*

**3 - Are Performance Standards set by**

Governmental Securities Regulator

SRO

Other \_\_\_\_\_

**4.1 - Sometimes, fund managers tend to use for marketing the period of the best performance of the fund. Does your jurisdiction require standardization of the period the performance is presented in advertisement ?**

No

Yes, a minimum of \_\_\_\_\_ years performance is required for:

the prospectus     all advertisement     certain advertisement

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**Please answer questions 4.2 to 4.5 if yes was answered in the question above:**

**4.2 Performance must also be presented with the following format:**

- monthly  quarterly  semi-annually  annually  \_\_\_\_\_  
 compared to a benchmark  through graphs  through tables

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**4.3 If a fund exists for a period lower than that described in question 4.1:**

- Not addressed  
 Marketing is not allowed  
 A disclaimer must be provided together with the advertisement  
 Advertisement must be provided since the beginning of the fund

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**4.4 - Sometimes, when a fund begins operation with a very low net worth, it is capable of outstanding results that will probably not repeat when the funds actually begins marketing operations. In your jurisdiction this issue is:**

- Not addressed  
 A minimum operational period of \_\_\_\_\_ is required prior the usage of the data in advertisement materials  
 A disclaimer must be provided

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**5 - Concerning the usage of volatility, what is prescribed ?**

- Not addressed  
 mandatory usage of the standard deviation of the returns  
 for the same period as the described in question 4.1

for a period other than the above (please explain) \_\_\_\_\_

other methodology rather than the calculation of standard deviation  
(please explain)

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**6 - Some funds use benchmarks in order to shareholders compare their performance. In your jurisdiction benchmarking is (multiple answers allowed):**

Not addressed

mandatory and must be approved by the regulator

mandatory, but freely set by the fund

not mandatory but recommendable

Must be used in

the prospectus  all advertisement  certain advertisement

Changes in the benchmark are required to be disclosed through

Newspaper  letter to the shareholders  other

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**7 - Concerning fees that funds charge to shareholders (multiple answers allowed):**

disclosure of entry and redemption fees must be clearly disclosed

management and performance fees charges must be clearly disclosed

changes of management or performance fees must be clearly disclosed through:

Newspaper  letter to the shareholders  other \_\_\_\_\_

performance must be provided excluding management fee

performance must be provided excluding performance fee

performance must be provided excluding income and other taxes

performance must be provided excluding other taxes

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**8 - Concerning firm composites (advertisement material where more than one fund is presented), the issue is:**

Not addressed

regulated

a minimum history of \_\_\_\_\_ years is required

all active portfolios must be disclosed for a determined category

terminated portfolios must be disclosed until the last period they existed

consistency is required

other \_\_\_\_\_

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**9 - Does your jurisdiction require the usage of disclaimers in advertisement ?**

No

Yes

past results do not necessarily have relation with future results

mutual funds may present negative results

you may lose more than your investment in high leverage funds

other

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**10.1 - Attached, please find a copy of the Global Investment Performance Standards (GIPS), which is divided into five parts. Comparing this standards with the domestic regulation, you may observe what level of compliance with each of these parts ? (if your answer is different from no or total, please detail.**

Part	Compliance level				
	No	less than half	around half	more than half	total
I - Input Data	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
II - Calculation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
III - Composite	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
IV - Disclosure	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
V - Presentation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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**10.2 Do you think GIPS is:**

- adequate for your jurisdiction
- too detailed for the current stage of development of the local mutual fund industry (please explain)
- some parts are incompatible with the legal framework (please explain)

( ) other (please explain)

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**11 - Is there a local association dealing with this subject in your country ?  
If yes, please provide name, contact person, address, and contact details.**

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**GENERAL COMMENTS**

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## APPENDIX 2 – GIPS STANDARDS

GIPS is divided into five sections that reflect the basic elements involved in presenting performance information: Input Data, Calculation Methodology, Composite Construction, Disclosures, and Presentation and Reporting.

1. *Input Data*: Consistency of input data is critical to effective compliance with GIPS and establishes the foundation for full, fair, and comparable investment performance presentations. The Standards provide the blueprint for a firm to follow in constructing this foundation.

2. *Calculation Methodology*: Achieving comparability among investment management firms' performance presentations requires uniformity in methods used to calculate returns. The Standards mandate the use of certain calculation methodologies (e.g., performance must be calculated using a time-weighted total-rate-of-return method).

3. *Composite Construction*: A composite is an aggregation of a number of portfolios into a single group that represents a particular investment objective or strategy. The composite return is the asset-weighted average of the performance results of all the portfolios in the composite. Creating meaningful, asset-weighted composites is critical to the fair presentation, consistency, and comparability of results over time and among firms.

4. *Disclosures*: Disclosures allow firms to elaborate on the raw numbers provided in the presentation and give the end user of the presentation the proper context in which to understand the performance results. To comply with GIPS, firms must disclose certain information about their performance presentation and the calculation methodology adopted by the firm. Although some disclosures are required of all firms, others are specific to certain circumstances and thus may not be applicable in all situations.

5. *Presentation and Reporting*: After constructing the composites, gathering the

## II. THE GLOBAL INVESTMENT PERFORMANCE STANDARDS

input data, calculating returns, and determining the necessary disclosures, the firm must incorporate this information in presentations based on the guidelines set out in GIPS for presenting the investment performance results. No finite set of guidelines can cover all potential situations or anticipate future developments in investment industry structure, technology, products, or practices. When appropriate, firms have the responsibility to include in GIPS-compliant presentations information not covered by the Standards. The Standards for each section are divided between requirements, listed first in each section, and recommended guidelines. Firms must follow the required elements of GIPS to claim compliance with GIPS. Firms are strongly encouraged to adopt and implement the recommendations to ensure that the firm fully adheres to the spirit and intent of GIPS. An example of a GIPS-compliant presentation for a single composite is included in Appendix A. Although GIPS may be translated into many languages, if a discrepancy arises between the different versions of the standards, the English version of GIPS is controlling.

### 1. Input Data

#### 1.A. Requirements

1.A.1. All data and information necessary to support a firm's performance presentation and to perform the required calculations must be captured and maintained.

1.A.2. Portfolio valuations must be based on market values (not cost basis or book values).

1.A.3. Portfolios must be valued at least quarterly. For periods beginning January 1, 2001, portfolios must be valued at least monthly. For periods beginning January 1, 2010, it is anticipated that firms will be required to value portfolios on the date of any external cash flow.

1.A.4. Firms must use trade-date accounting for periods beginning January 1, 2005.

1.A.5. Accrual accounting must be used for fixed-income securities and all other assets that accrue interest income.

1.A.6. Accrual accounting must be used for dividends (as of the ex dividend date) for periods beginning January 1, 2005.

1.B. *Recommendations*

1.B.1. Sources of exchange rates should be the same for the composite and the benchmark.

## **2. Calculation Methodology**

2.A. *Requirements*

2.A.1. Total return, including realized and unrealized gains plus income, must be used.

2.A.2. Time-weighted rates of return that adjust for cash flows must be used. Periodic returns must be geometrically linked. Time-weighted rates of return that adjust for daily-weighted cash flows must be used for periods beginning January 1, 2005. Actual valuations at the time of external cash flows will likely be required for periods beginning January 1, 2010.

2.A.3. In both the numerator and the denominator, the market values of fixed-income securities must include accrued income.

2.A.4. Composites must be asset weighted using beginning-of-period weightings or another method that reflects both beginning market value and cash flows.

2.A.5. Returns from cash and cash equivalents held in portfolios must be included in total-return calculations.

2.A.6. Performance must be calculated after the deduction of all trading expenses.

2.A.7. If a firm sets a minimum asset level for portfolios to be included in a composite, no portfolios below that asset level can be included in the composite.

2.B. *Recommendations*

2.B.1. Returns should be calculated net of non-reclaimable withholding taxes on dividends, interest, and capital gains. Reclaimable withholding taxes should be accrued.

2.B.2. Performance adjustments for external cash flows should be treated in a consistent manner. Significant cash flows (i.e., 10 percent of the portfolio or greater) that distort performance (i.e., plus or minus 0.2 percent for the period) may require portfolio revaluation on the date of the cash

flow (or after investment) and the geometric linking of subperiods. Actual valuations at the time of external cash flows will likely be required for periods beginning January 1, 2010.

## **3. Composite Construction**

3.A. *Requirements*

3.A.1. All actual fee-paying discretionary portfolios must be included in at least one composite.

3.A.2. Firm composites must be defined according to similar investment objectives and/or strategies.

3.A.3. Composites must include new portfolios on a timely and consistent basis after the portfolio comes under management—unless specifically mandated by the client.

3.A.4. Terminated portfolios must be included in the historical record of the appropriate composites up to the last full measurement period that the portfolio was under management

3.A.5. Portfolios must not be switched from one composite to another unless documented changes in client guidelines or the redefinition of the composite make switching appropriate. The historical record of the portfolio must remain with the appropriate composite.

3.A.6. Convertible and other hybrid securities must be treated consistently across time and within composites.

3.A.7. Carve-out returns excluding cash can not be used to create a stand-alone composite. When a single asset class is carved out of a multiple-asset portfolio and the returns are presented as part of a single-asset composite, cash must be allocated to the carve-out returns and the allocation method must be disclosed. Beginning January 1, 2005, carve-out returns must not be included in single asset class composite returns unless the carve-outs are actually managed separately with their own cash allocations.

3.A.8. Composites must include only assets under management and may not link simulated or model portfolios with actual performance.

3.B. *Recommendations*

3.B.1. Separate composites should be created to reflect different levels of allowed asset exposure.



3.B.2. Unless the use of hedging is negligible, portfolios that allow the use of hedging should be included in different composites from those that do not.

#### **4. Disclosures**

##### *4.A. Requirements*

The following disclosures are *mandatory*:

4.A.1. The definition of "firm" used to determine the firm's total assets and firm-wide compliance.

4.A.2. Total firm assets for each period.

4.A.3. The availability of a complete list and description of all of the firm's composites.

4.A.4. If settlement-date valuation is used by the firm.

4.A.5. The minimum asset level, if any, below which portfolios are not included in a composite.

4.A.6. The currency used to express performance.

4.A.7. The presence, use and, extent of leverage or derivatives, including a description of the use, frequency and characteristics of the instruments sufficient to identify risks.

4.A.8. Whether performance results are calculated gross or net of investment management fees and other fees paid by the clients to the firm or to the firm's affiliates.

4.A.9. Relevant details of the treatment of withholding tax on dividends, interest income, and capital gains. If using indexes that are net of taxes, firms must disclose the tax basis of the composite (e.g., Luxembourg based or U.S. based) versus that of the bench-mark.

4.A.10. For composites managed against specific benchmarks, the percentage of the composites invested in countries or regions not included in the bench-mark.

4.A.11. Any known inconsistencies between the chosen source of exchange rates and those of the benchmark must be described and presented.

4.A.12. Whether the firm has included any non-fee-paying portfolios in composites and the percentage of composite assets that are non-fee-paying portfolios.

4.A.13. Whether the presentation conforms with local laws and regulations that differ from GIPS requirements and the manner in which the local standards conflict with GIPS.

4.A.14. For any performance presented for periods prior to January 1, 2000, that does not comply with GIPS, the period of noncompliance and how the presentation is not in compliance with GIPS.

4.A.15. When a single asset class is carved out of a multiple-asset portfolio and the returns are presented as part of a single-asset composite, the method used to allocate cash to the carve-out returns.

##### *4.B. Recommendations*

The following disclosures are *recommended*:

4.B.1. The portfolio valuation sources and methods used by the firm.

4.B.2. The calculation method used by the firm.

4.B.3. When gross-of-fee performance is presented, the firm's fee schedule(s) appropriate to the presentation.

4.B.4. When only net-of-fee performance is presented, the average weighted management and other applicable fees.

4.B.5. Any significant events within the firm (such as ownership or personnel changes) that would help a prospective client interpret the performance record.

#### **5. Presentation and Reporting**

##### *5.A. Requirements*

5.A.1. The following items must be reported:

(a) At least five years of performance (or a record for the period since firm inception, if inception is less than five years) that is GIPS compliant. After presenting five years of performance, firms must present additional annual performance up to 10 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 10-year performance record).

(b) Annual returns for all years.

(c) The number of portfolios and amount of assets in the composite and the percentage of the firm's total assets represented by the composite at the end of each period.

(d) A measure of the dispersion of individual component portfolio returns around the aggregate composite return.

(e) The standard Compliance Statement indicating firmwide compliance with GIPS.

(f) The composite creation date.

5.A.2. Firms may link non-GIPS-compliant performance to their compliant history so long as firms meet the disclosure requirements of Section 4 and no non-compliant performance is presented for periods after January 1, 2000. (For example, a firm that has been in existence since 1990 that wants to present its entire performance history *and* claim compliance as of January 1, 2000, must present performance history that meets the requirements of GIPS at least from January 1, 1995, and must meet the disclosure requirements of Section 4 for any non-compliant history prior to January 1, 1995.)

5.A.3. Performance for periods of less than one year must not be annualized.

5.A.4. Performance results of a past firm or affiliation can only be linked to or used to represent the historical record of a new firm or new affiliation if

(a) a change only in firm ownership or name occurs, or

(b) 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 un-changed.

5.A.5. If a compliant firm acquires or is acquired by a non-compliant firm, the firms have one year to bring the non-compliant firm's acquired assets into compliance.

5.A.6. If a composite is formed using single-asset carve-outs from multiple asset class composites, the presentation must include the following:

(a) a list of the underlying composites from which the carve-out was drawn, *and*

(b) the percentage of each composite the carve-out represents.

5.A.7. The total return for the benchmark (or benchmarks) that reflects the investment strategy or mandate represented by the composite must be presented for the same periods for which the composite return is presented. If no benchmark is presented, the presentation must explain why no benchmark is disclosed. If the firm changes the benchmark that is used for a given composite in the performance presentation, the firm must disclose both the date and the reasons for the change. If a custom benchmark or combination of multiple benchmarks is used, the firm must describe the benchmark creation and rebalancing process.

#### 5.B. *Recommendations*

5.B.1. The following items should be included in the composite presentation or disclosed as supplemental information:

(a) composite performance gross of investment management fees and custody fees and before taxes (except for non-reclaimable with holding taxes),

(b) cumulative returns for composite and benchmarks for all periods,

(c) equal-weighted means and median returns for each composite,

(d) volatility over time of the aggregate composite return, and

(e) inconsistencies among portfolios within a composite in the use of exchange rates.

5.B.2. Relevant risk measures—such as volatility, tracking error, beta, modified duration, etc.—should be presented along with total return for both bench-marks and composites.

## APPENDIX 3 – INVESTMENT COMPANY INSTITUTE (ICI) STATISTICS

### INTERNATIONAL MUTUAL FUNDS SURVEY (First Quarter, 2000)

The tables below show assets (in millions of U.S. dollars) of open-end funds for 36 different jurisdictions, where data is available, as of the end of March 31, 2000. Extracted from [http://www.ici.org/facts\\_figures/intl\\_survey\\_3\\_00.html](http://www.ici.org/facts_figures/intl_survey_3_00.html)

#### Assets of Open-end Investment Companies (in millions of U.S. dollars)

Argentina	7,896
Australia	345,948
Austria	76,869
Belgium	66,487
Brazil	137,474
Canada	285,287
Chile	4,471
Czech Republic	1,567
Denmark	30,968
Finland	12,781
France	685,141
Germany	252,474
Greece	34,018
Hong Kong	210,741
Hungary	2,006
India	n/a
Ireland	n/a
Italy	466,742
Japan	532,820
Korea	154,080
Luxembourg	721,738
Mexico	23,307
Netherlands	n/a
New Zealand	8,249
Norway	15,641
Philippines	121
Poland	n/a
Portugal	19,140
Russia	272
South Africa	18,065
Spain	195,582

Sweden	89,103
Switzerland	84,679
Taiwan	38,466
United Kingdom	386,627
United States	7,303,252
<b>Total</b>	<b>\$12,212,011</b>

## **APPENDIX 4 –CONTACTS ON ASSOCIATIONS DEALING WITH PPS**

**Albania - N/A**

**Argentina - N/A**

### **Bahamas - Bahamas Society of Financial Analysts c/o Templeton Global Advisors Limited**

Mr. Dale Winner  
 President  
 P.O. Box N-7759  
 Lyford Cay, Bahamas  
 Tel: 242362 4600  
 Fax: 242 362 4308

### **Brazil - Associação Nacional dos Analistas de Mercado de Capitais (National Association of Capital Markets Analysts)**

Mr. Antonio Carlos Colangelo Luz  
 Chairman .  
 Rua São Bento 545/ 5ª sobreloja  
 01011-904 São Paulo, SP  
 Phone: (55 11) 3107-1571 / Fax: (55 11) 3105-1447

### **Hungary - The Association of Fund Management Companies in Hungary (BAMOSZ)**

President: Mr. Gyula Fatér Tel.: ++36-1-485 8900  
 Secretary: Ms. Kinga Pálffy Tel.: ++36-1-266 9209 Fax: ++36-1-266 9024  
 Address: H-1052 Budapest, Deák Ferenc u. 7-9.  
 POBox: H-1364 Budapest, PF. 13.  
 E-mail: [kinga.palffy@bamosz.datanet.hu](mailto:kinga.palffy@bamosz.datanet.hu)  
 Internet: [www.bamosz.hu](http://www.bamosz.hu)

**Latvia - N/A**

### **Malaysia - Malaysian Association of Asset Managers (MAAM)**

Puan Zeti Marziana Muhamed  
 Executive Secretary  
 Suite 1501 – 1502, 15<sup>th</sup> Floor - Wisma Hang Sam  
 Jalan Hang Lekir  
 50000 Kuala Lumpur

Malaysia  
Tel: 03 – 2383991, 03 - 2383992

**Paraguay - N/A**

**Peru - Asociación de Administradoras de Fondos Mutuos de Inversión en Valores.**

Sr. Javier Penny Pestana (Gerente de Wiese Fondos - Sociedad Administradora de Fondos Mutuos de Inversión en Valores y Fondos de Inversión S.A.)  
Juan de Arona Avenue 805 , San Isidro , Lima - Perú  
Telephone Number : (511) 221 3828

**Poland - N/A**

**Singapore - Investment Management Association of Singapore**

Mr Daniel Chan  
Chairman  
20 Cecil Street  
#26-01/08 The Exchange  
Singapore 049705  
Facsimile: (65) 557 2761

**South Africa - Funa Managers Association of South Africa**

Ms. C. Mynard  
P.O. Box 4101  
Johannesburg, South Africa  
Tel: 011 408 3913  
Fax: 011 403 1777

**Thailand - Association of Investment Management Companies - AIMC**

Mr. Veerachote Jivaborvornpongs  
President  
195/4 Lake Rajada Office Complex Building 2, 3<sup>o</sup> Floor  
Ratchadaphisek Road, Khlong-Toey, Bangkok 10110 - Thailand  
Tel: 662 264 0900 3  
Fax: 662 264 0904

**Tunisia - N/A**

**Turkey - N/A**

**Uruguay - Cámara de Administradoras de Fondos de Inversión del Uruguay**

Mr. Pablo Laurino  
Colonia 1329 Piso 1  
[pablo.laurino@citicorp.com](mailto:pablo.laurino@citicorp.com)  
Tel: 598 9030000

**Venezuela - Asociación Venezolana de Administradoras de Fondos Mutuales (AVAF).**

Mrs. Yanida Cañizalez (President), Ana Karina Vazquez (Manager).

Phone number: 58-2 9034403, 4101

Fax: 58-2 9034115