



January 29, 2018

CFA Institute  
Global Investment Performance Standards  
915 E. High Street  
Charlottesville, VA 22902

Dear Sir or Madam:

Thank you for allowing us to comment on the Exposure Draft of GIPS Guidance Statement on Benchmarks (the "Guidance Statement"). We would like to offer the following responses to the questions posed within the Guidance Statement:

**Questions posed within the Guidance Statement:**

*Question 1: Do you agree that firms should be required to disclose why they have chosen an ETF rather than a market index as the composite benchmark?*

We disagree with the proposed requirement. If a firm chooses to use an ETF instead of a market index, it is important to clearly label and disclose this within the compliant presentation; however, we see little value in additional disclosure as to the reason why the ETF was chosen over the market index.

*Question 2: Do you agree that the ETF chosen must be one in which the returns are comparable to those of the composite?*

In general, we agree with the intent of this requirement which is to prevent showing an attainable benchmark return (i.e. the ETF return net of its fees, which is investible) compared to an unattainable composite return (i.e. the gross composite return, assuming that generally management fees are charged). We offer the following observations:

- The current use of the word "comparable" is awkward and somewhat ambiguous ("...must present the returns of the ETF that are comparable to the presented composite returns.") There can be a variety of fees and expenses included within the expense ratio of an ETF, so it is unclear what is necessary to make them comparable. If only gross composite returns are presented, must the entire expense ratio be grossed-up for an ETF benchmark or just a certain portion? Is there a prescribed method? Guidance on this would be helpful.
- It is worth noting that other peer groups and universes, which are also included as a type of benchmark within the Guidance Statement, typically are based upon the results of actual strategies/products which could either be gross or net of fees. While fee considerations are being addressed for ETF benchmarks, these could also apply to peer group/universe benchmarks as well, potentially others.

*Question 3: Do you agree that the hedging criteria for the benchmark must be disclosed? Do you agree that it should be required that any material difference in hedging between the composite and the benchmark be disclosed?*

We agree that this type of information is important. However, we question whether this would already be implicitly required through existing provision 4.A.4 which requires disclosing the benchmark description. The GIPS Glossary defines the benchmark description as "General information regarding the investments,

structure, and/or characteristics of the benchmark.” Including an additional requirement in this guidance statement may not be needed if this is already part of the benchmark description.

*Question 4: Do you agree that firms should be required to select the benchmark that is most consistent with the withholding tax status of the portfolios in the composite?*

We believe it could be misleading to use a benchmark return net of withholding tax while calculating composite returns gross of withholding tax, as this would systematically inflate the composite returns relative to the benchmark. However, using a gross of withholding tax benchmark return with a net of withholding tax composite return would disadvantage the composite return which would not likely be misleading. We suggest the requirement be that a firm must not present a net of withholding tax benchmark return with a gross of withholding tax composite return if a comparable gross of withholding tax version of the benchmark is available.

*Question 5: Do you agree with the creation of custom benchmarks using fees and/or trading costs to provide returns comparable with the net-of-fees and/or trading costs composite returns?*

We agree.

*Question 6: Do you agree that if a net-of-fees and/or trading costs benchmark is presented, the firm should be required to disclose the fee schedule and/or the trading costs used to derive the benchmark returns?*

We agree.

*Question 7: Do you agree with the proposed treatment of price-only benchmark returns?*

We agree.

*Question 8: Do you agree that if a firm changes a benchmark retroactively, the disclosure of the change should be required to be included in the compliant presentation only for as long as it is meaningful as per the firm’s policy and the disclosure can be removed once it is no longer meaningful?*

We agree and welcome this approach as historically there have been very few “sunset provisions” for disclosures.

*Question 9: Do you agree that firms must disclose changes to benchmark ordinal (primary, secondary)?*

We disagree with this requirement since the Guidance Statement already states that the GIPS standards do not differentiate between primary and secondary or other benchmarks. If the GIPS standards do not differentiate between these, then there should not be a requirement to disclose if a firm changes its designations of benchmarks (e.g. primary, secondary, etc.).

*Question 10: Do you agree that firms should be allowed to present the name of the benchmark for a readily recognized index or other point of reference instead of presenting the full benchmark description?*

We agree.

*Question 11: Do you agree that if the firm is uncertain about whether the benchmark is readily recognized by any potential prospective client, the firm should be required to include the benchmark description?*

We disagree with this requirement for three reasons:

- First, it is duplicative of existing guidance. The Guidance Statement already states on page 17 that “Each firm must decide for itself whether a benchmark is widely recognized. If the firm is not certain about whether the benchmark is widely known, the firm must include the benchmark description.” This statement alone makes it clear that firms are to take a cautious approach when determining whether a benchmark is widely recognized.
- Second, the Guidance Statement is introducing a new term, “potential prospective client”, and is extending requirements to this term by stating “It is the firm’s responsibility to ensure that any *potential prospective clients* receiving a compliant presentation will be familiar with the benchmark if only the benchmark name is provided. If the firm is uncertain about whether the benchmark is readily recognized by any *potential prospective client*, the firm must include the benchmark description.” A blanket requirement that a firm must ensure all *potential prospective clients* know or understand something is likely a test that no firm could pass with certainty regardless of the benchmark, making the idea of a widely recognized benchmark null. If the idea that some benchmarks are widely recognizable and thus need no further description is still valid and supported by the GIPS standards, then we request this onerous proposed requirement be removed.
- Lastly, we disagree with the assertion that is given within the example on page 17 of the Guidance Statement of a situation where the firm would not know if all potential prospective clients would recognize the benchmark. The example appears to indicate that the reader of a compliant presentation on a firm’s website is, by default, a “prospective client.” However, the GIPS standards already define prospective client as “Any person or entity that has expressed interest in one of the firm’s composite strategies and qualifies to invest in the composite.” For a website that is viewable by the public, there is no indication that the reader qualifies to invest in the composite strategy. Additionally, a casual viewing of publicly available documents is certainly different than an interested party directly contacting a firm to request information on its capabilities for a specific strategy or style. We request a revised example be included, should the above discussed requirement be adopted.

*Question 12: Do you agree that if other benchmarks are presented and labelled as supplemental information, that all of the required benchmark disclosure and presentation items should be required to be presented for all benchmarks included in the compliant presentation?*

We agree.

**Additional Comments**

In recent years we have seen an increasing number of situations where the cost of licensing certain index data has become prohibitive, causing firms to look for alternative indices and/or sources. To the extent that guidance can be provided as to when and how the cost of index data can be a factor in a firm's decision in choosing a benchmark and/or in deciding to change a benchmark (whether retroactively or going-forward), this would be useful.

Thank you for considering our comments.

Sincerely,

*ACA Performance Services, LLC*

ACA Performance Services, LLC