BARROW, HANLEY, MEWHINNEY & STRAUSS, LLC
2200 ROSS AVENUE, 31st FLOOR • DALLAS, TEXAS 75201 • 214-665-1900

January 29, 2018

Via E-Mail: standards@cfainstitue.org

CFA Institute
Global Investment Performance Standards
Re: Guidance Statement on Benchmarks
915 East High Street
Charlottesville, VA 22902
USA

RE: Exposure Draft of the Guidance Statement on Benchmarks

Dear GIPS Executive Committee:

We would like to offer the attached responses to the questions posed by the Committee in the Exposure Draft of the Guidance Statement on Benchmarks.

Laura Jirele-Borleske, CFA, CIPM
Information Quality Analyst & GIPS Officer
Barrow, Hanley, Mewhinney, & Strauss, LLC

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?

Yes, we agree. Especially in the case as mentioned in the guidance statement where there is a published market index on which the ETF is based, it is consistent with the GIPS standards for firms to disclose why they chose the ETF rather than the published benchmark.

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

Yes, we agree. Just as with selecting a published market index, the returns should be comparable to the composite performance that is being presented. In this case, especially, since there is the ability to select different ETF returns, selecting the return that is most comparable to the composite would be consistent with the GIPS standards. However, in the case where a firm finds another option more appropriate it may be better to require either selecting the option that is most consistent with the returns or to disclose why a different option was selected.

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?

Yes, we agree. Disclosing the hedging criteria and any material differences in hedging is consistent with the GIPS standards.

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?

Yes, we agree. If multiple options for withholding taxes are available for a published market index, it would be consistent with the GIPS standards to select the benchmark that is the most consistent with the composite. However, in the case where a firm finds another option more appropriate it may be better to require either selecting the option that is most consistent with the status of the portfolios or to disclose why a different option was selected.

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?

Yes, we agree that if a firm chooses to create a custom benchmark using fees and/or trading costs that would be consistent with the GIPS standards. However, we do not believe that firms should be required to create such a custom benchmark.

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?

Yes, we agree. If the fee schedule or trading costs that are used are not disclosed it would allow the firm to potentially provide misleading benchmark returns. Also, the fee schedule or trading costs should be comparable to or lower than those of the composite in order to prevent the benchmark returns from being artificially lowered and, therefore, showing an artificially inflated relative composite return.

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

Yes, we agree. When a composite includes income, selecting a total return published market index, when that is available, is consistent with the GIPS standards. For classes that do not include income returns, considering the price return to be a total return is also appropriate.

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?

Yes, we agree that the disclosure should be included for as long as it is meaningful and can be removed once it is no longer meaningful.

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

Yes, we agree. If a firm chooses to describe benchmarks with an ordinal, then a change to that designation should be disclosed.

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?

Yes, we agree. If a firm chooses a readily recognized published market index as a benchmark there is no significant benefit to prospective clients to have an additional description of the benchmark.

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?

Yes, we agree. However, it should be at the discretion of the firm to determine if there is any uncertainty about whether the benchmark is readily recognizable. Additionally, we would request additional guidance on the specific example of when a GIPS compliant presentation would require a description even for what a firm would consider a 'widely recognized' benchmark. The example of putting a GIPS compliant presentation on a website, and so having no control over who has access to the presentation which then requires the firm to include a benchmark description for a 'widely recognized' benchmark. This may not be applicable to a non-retail firm that only manages assets for institutional investors, for example, as an individual who may happen upon the GIPS compliant presentation and may not be familiar with the benchmark would not be a potential prospective client to that firm.

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?

Yes, we agree. If an additional benchmark is presented as supplemental information it would be consistent with the GIPS standards to require the firm to present all information required to be presented for a benchmark by the Standards.

Additional Comments:

We think that it is helpful to bring all of the information regarding benchmarks in the GIPS standards and other guidance statement and Q&As together into one document. There are some areas that may require additional clarity, such as when a benchmark description for what a firm has determined to be a widely recognized benchmark would be needed. However, as we move forward it will be a great reference to be able to come to this guidance statement when a question regarding benchmarks and the GIPS standards come up.