



Private and Confidential

29<sup>th</sup> January 2018

GLOBAL INVESTMENT PERFORMANCE STANDARDS  
915 East High Street  
Charlottesville, Virginia 22902

Dear GIPS Executive Committee,

EY Response - Exposure Draft of GIPS® Guidance Statement on Benchmarks

Thank you for the opportunity to comment on the exposure draft of the new guidance statement on Benchmarks. As a firm we appreciate the efforts of the Executive Committee and Technical Committee and welcome such clarification around the detail of the standards.

In preparing this response, we have consulted with and incorporated the viewpoints of local EY practices, some of whom have also responded directly to the CFA Institute or indirectly through their participation in local country sponsor responses.

Our comments and suggestions are included within the attached appendix.

Yours faithfully

A handwritten signature in black ink that reads 'Ernst &amp; Young LLP'. The signature is written in a cursive, slightly slanted style.

Ernst & Young LLP

## Appendix 1 – EY responses

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?

ETFs are more versatile than a market index because they can be designed to track almost any index or asset class, thus using an ETF as the composite benchmark could be more aligned to the investment strategy. Notwithstanding this, the ETF selected must be representative of the investible universe of the composite strategy and in that regard, the disclosure should be linked to the benchmark selection criteria outlined in the GS.

Therefore we agree that firms should be required to disclose why they have chosen an ETF as a composite benchmark. This will promote transparency and reduce the likelihood of firms using ETF's to make composite performance look better, as a result of trading and other charges lowering the benchmark returns.

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

Yes, using comparable returns, for example, gross returns for the composite and the ETF, will give a clearer view of actual performance as the returns can greatly influence decisions throughout the investment process. In the same way, it is also essential to disclose how the firm arrived at the net figure for composite returns.

If an ETF is presented where the returns are not gross or net as per the composite returns, this will result in a lack of comparability which may make the composite performance appear more enhanced compared to the benchmark performance.

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, hedging criteria for the benchmark should be disclosed as this will allow comparison between that of the composite with that of the benchmark, assuming composite hedging criteria is disclosed as part of the composite description.

Firms should also disclose if there are any material differences in the hedging between the composite and the benchmark, to allow the investor to take account of this when reviewing the performance of the composite compared to the benchmark. By creating a policy for materiality, the firm is aware of when a hedging difference is material and can then apply it consistently.

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, in order to promote comparability, firms should be required to select the benchmark which has the most consistent withholding tax status to the portfolios in the composite.

However, if this information isn't readily available from index providers, this will be costly to the firm to have the bespoke information created. If the firm chooses not to incur additional costs of retrieving this data, they must disclose that the WHT status of the benchmark is different to that of the composite.

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. However, as detailed above, this will be an additional expense to firms if they require an index provider to calculate these returns which may act as a deterrent.

To promote transparency, where custom benchmarks are used, we agree that firms should disclose the fee schedule and/or trading costs used to derive the benchmark returns and must disclose that it is a custom benchmark. The composite returns should also be presented net-of-fees and/or trading costs to enable investors to compare the performance.

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. See our response to question 5.

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

Yes, where the total return of the benchmark is the same as the price-only return, because income isn't generated, we agree that the price-only return can be treated as the total return under GIPS. However, the selection of the price-only benchmark should be clearly explained and justified. As there are only a small number of asset classes that do not generate income, we recommend that the guidance statement specify a 'white list' of asset classes where this approach is considered to be reasonable.

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, disclosure of the change in benchmark should only be required for as long as it is meaningful. Any longer than this creates a risk of confusing investors. However, for any series of benchmark returns presented in a composite report where part of that series is derived from a benchmark other than the disclosed composite benchmark, we are not sure it could be deemed immaterial to disclose this fact. This is because users of information do look carefully at 5 and 10 year outperformance data and will assume, in the absence of any disclosure, that the data is drawn from the same benchmark.

We also agree that where appropriate, the firm must create a policy for determining the length of time that retroactive benchmark changes are disclosed, and apply that policy consistently.

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

Yes, if a firm distinguishes between primary and secondary benchmarks, any changes to the benchmark ordinal should be disclosed as it will impact the way the information is interpreted. The firm should also be required to disclose the reason for the benchmark ordinal change and if this is retroactive or prospective.

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 that firms should be allowed to present the name, rather than the name and description, for a readily recognisable index. However, as has been explained in the guidance statement, it can be difficult to monitor who has access to such information, and therefore, whether or not the index is readily recognisable to them.

In the interest of maintaining transparency and consistency, disclosure of the full benchmark description should be recommended, if not required.

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, although whether a benchmark is readily recognisable to a potential prospective client, is a judgmental decision and firms run the risk of providing too little information if a benchmark description isn't disclosed. The litmus test should be whether a suitably detailed description can be obtained by typing the index name into a recognised internet search engine.

This risk will remain if disclosure of the benchmark description is a recommendation as opposed to a requirement.

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 such information is labelled as supplemental to a compliant presentation, all of the information included should be GIPS compliant.