HSBC

CFA Institute
Global Investment Performance Standards
Re: GIPS® 20/20 Consultation Paper
915 East High Street
Charlottesville, VA 22902
USA

January 29, 2018

To whom it may concern,

Please see below the response from HSBC Global Asset Management regarding the Exposure Draft of GIPS® Guidance Statement on Benchmarks. Our responses to the draft guidance statement and questions raised within are as follows:

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?*

   No, not a requirement as to why, but this should be a recommendation. However, if an ETF is used as a benchmark, it should be required to disclose if the ETF is gross or net of fees and what the fee rate is, otherwise this could be misleading if gross of fee returns of a composite are used vs. a benchmark that deducts fees.

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

   Not necessarily based solely on returns, it should be based on GIPS benchmark guidelines and comparable risk factors.

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

   Yes, that hedging criteria for the benchmark must be disclosed, as hedging for a composite is already a required disclosure under standard 4.A.13 for derivative usage. If benchmark's hedging process/structure is materially different than that of the composite, then this should be a required disclosure as well. The required disclosure should describe the differences for example: frequency of hedging, percentage of hedging etc…

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 as this is a better apples to apples comparison as to what the investor will experience, but if this ends up not being a requirement and only a recommendation, firms should disclose why the benchmark used is different from the composite.

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?*

No, as this won't be consistent among firms that charge fees differently.

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?*

If this is the case, then yes, it should be fully disclosed and transparent.

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

I don't see a proposed treatment in the paper, however price-only benchmark returns should not be used as this is not consistent with GIPS calculation methodology for portfolios which requires a total return calculation.

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 disclosure can be removed once it is no longer meaningful?*

I agree with this. But there is another possible treatment that the CFA Institute may want to consider; and that would be very similar to an error correction where the firm could send the revised compliant presentation to existing clients and prospects detailing the change in benchmark with the firm's reasoning. Any new prospects would then be able to receive the new compliant presentation with the new benchmark, but without further disclosure.

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

Yes, firms should make every reasonable effort to fairly represent their performance with full disclosure. Any flipping of benchmarks between primary and secondary needs to be fully explained as to why the change was necessary.

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?*

I agree, but the description should be a recommendation for readily recognized indices.

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

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?*

If I understand the question correctly, it is saying that if another benchmark is used for supplemental information, then you must apply all benchmark disclosures required in a compliant presentation on those benchmarks in the Supplemental Information as well. If that is the case then I agree in order to provide full transparency to the recipient of the presentation.

Sincerely,

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