January 29, 2017

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

Dear GIPS Executive Committee:

Thank you for the opportunity to comment on the recently published GIPS Guidance Statement on Benchmarks. The following are my comments in response to the questions you have raised in the document.

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?

In my opinion, if a firm has chosen to use an ETF as a benchmark, the firm should be required to explicitly indicate that the benchmark is that ETF (and not the index). The disclosure needs to be clear enough for the reader of the presentation to understand that an ETF is being used.

The firm should (but not necessarily be required to) disclose the reason why they have chosen the ETF. The firm should indicate that the ETF reflects the trading costs of the fund, but this should not be a required disclosure.

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

No. How do you define "comparable?" If a requirement such as this is introduced, it should apply to any benchmark chosen, not just to the use of ETFs. That said, I believe "comparable" would be difficult to quantify in a consistent manner across firms. The requirement that the benchmark (whatever is chosen) reflect the investment objective, strategy or mandate of the composite should be sufficient, in my opinion.

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.

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, if this information 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?

I have not encountered this in practice by firms claiming compliance with GIPS. I think that there is significant potential for confusion if such benchmarks are used and the disclosures are not clear, because the majority of firms do not reduce benchmarks by management fees or trading expenses. If firms do this (or used benchmarks from vendors that do this), firms should be required to clearly disclose all relevant details about what has been deducted from the gross benchmark return. Ideally, the deduction of expenses for the benchmark should align with the deduction of expenses from the composite returns, as closely as possible. All disclosures that are required for the composite (e.g., use of actual vs. model fees, whether performance fees exist, fee schedule) should be required for the 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.

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

Yes – GIPS should continue to require firms that total return benchmarks are used. Price return benchmarks should be allowed if clearly labeled as supplemental info (guidance should state this).

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.

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

Yes. The use of a benchmark ordinal should not be required, but if the firm has used a benchmark ordinal, and that ordinal has changed, then disclosure should be required, similar to a change in benchmark (i.e., disclosure of the date, description of, and reason).

Guidance should also, in my opinion, distinguish between "composite benchmarks" (reflecting composite strategy) and "glossary" benchmarks (supplemental information). The latter would include, for example, the use of inflation indexes where those indexes do not reflect the strategy of the composite.

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.

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?

No. I think a recommendation is sufficient. Firms can make a judgment call on whether this is necessary, in my opinion.

Question 12a: 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?

No. In my opinion, firms should be required to treat all composite benchmarks evenly (other than the ordinal, if used). Thus, all requirements would apply, and the firms should be required to apply recommendations consistently across the multiple composite benchmarks included in a given compliant presentation.

Firms should be allowed to use their judgment on what information to show for benchmarks labeled as supplemental information.

Again, thank you for this opportunity to comment on the GIPS Guidance Statement on Benchmarks

Sincerely,

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