

January 29, 2018

CFA Institute
Global Investment Performance Standards
915 East High Street
Charlottesville, VA 22902
standards@cfainstitute.org

Re: GIPS® Benchmark Guidance Statement

Kreischer Miller (KM) is pleased to have the opportunity to comment on the Exposure Draft of GIPS Guidance Statement on Benchmarks (the Exposure Draft). KM supports the CFA Institute, the GIPS Executive Committee and the GIPS Technical Committee in their ongoing efforts to improve Global Investment Performance Standards.

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?

Kreischer Miller Response

In general, we agree with the concept of allowing flexibility in benchmarks – including the use of custom benchmarks. ETF benchmarks appear to fall under the general concept of a custom benchmark. Firms are not required to disclose why they chose other custom benchmarks, instead of market indices. We do not believe that this requirement is necessary for ETF benchmarks. However, we do believe that firms should be required to fully describe ETF benchmarks so readers of compliant presentations are adequately informed about the benchmarks.

Question 2

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

Kreischer Miller Response

We are concerned that the determination of what is, or is not, a comparable benchmark may differ from firm to firm and person to person (and perhaps among regulators). Although we can think of examples where it would be clearly inappropriate to include a benchmark for certain composites, there are other circumstances where the distinction might not be as clear.

GIPS provision 0.A.3 already prohibits firms from presenting performance which is false or misleading. “False or misleading”, as opposed to not “comparable”, represents better criteria with which to make a benchmark inclusion determination. We believe that not presenting benchmarks that are false or misleading should apply to all benchmark types, not just ETFs.

Also, we note that the Exposure Draft provides that benchmarks not relevant to the strategy may be presented as supplemental information. ETF benchmarks should also be allowed to be presented as supplemental information.

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?

Kreischer Miller Response

Yes, we agree that the hedging criteria must be disclosed along with any material differences in hedging strategies between the composite and the benchmark.

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?

Kreischer Miller Response

No. Tax considerations should be a part of the benchmark selection process, but they should not be the main driver of the process. What happens if a firm chooses a certain tax withholding index based on the status of portfolios in the composite at a point in time, and other portfolios come in/out, over subsequent periods, with different tax statuses? This might result in toggling between different benchmarks based upon tax status changes of the portfolios in 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?

Kreischer Miller Response

Yes, provided full disclosure of the customization is required to be presented.

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?

Kreischer Miller Response

Yes, we believe it is important that a reader of a compliant presentation have this information so that they can properly evaluate the presentation.

Question 7

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

Kreischer Miller Response

Yes, we believe that it is acceptable to use a price-only benchmark for composites that do not produce income.

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?

Kreischer Miller Response

Yes, we believe that disclosure of retroactive benchmark changes should be presented as long as they are meaningful. We suggest a minimum period of time (such as 3 years) be included as part of this guidance statement so that this provision is not subject to manipulation.

Question 9

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

Kreischer Miller Response

Yes, we believe that disclosing ordinal changes would be useful to a reader of the compliant presentation.

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?

Kreischer Miller Response

No, we believe that compliant presentations should contain full descriptions for all benchmarks. Benchmark descriptions are generally not that difficult to include in presentations. There are often slightly different versions of certain benchmarks. Including the benchmark description should eliminate any potential confusion.

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?

Kreischer Miller Response

Yes.

Question 12

Do you agree that if other benchmarks are presented and labeled 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?

Kreischer Miller Response

Yes, we believe that including benchmark disclosures, even for those benchmarks presented as supplemental information, would be a benefit to a reader of a compliant presentation.

Kreischer Miller GIPS Consistency Concern

We note that this Exposure Draft allows firms to include benchmarks, which are not comparable to the composite, as supplemental information. The Exposure Draft uses the example of including a market-capitalization index for a smart beta strategy composite. In this case, a smart beta index would be the index for the composite, and the market-capitalization index would be presented as supplemental information. The rationale provided in this Exposure Draft is that firms may want to show the opportunity cost of other asset classes. We agree with this concept as presented in this Exposure Draft. However, we note that this appears to conflict with the Exposure Draft Guidance Statement on the Use of Supplemental Information.

Under the heading of “What Is Not Supplemental Information?”, the Supplemental Information Exposure Draft includes the following language:

False or misleading information. Firms that claim compliance with the GIPS standards must not present performance or performance-related information that is false or misleading. For example, the following four items are misleading and unrepresentative; therefore, compliant firms are prohibited from presenting this information (unless specifically requested of the firm by a prospective client or existing client):

- 1. Theoretical performance results mathematically or presentationally linked to actual performance results (e.g., a new composite’s actual track record linked to history of its back-tested strategy to create a longer track record).*
- 2. Nonportable performance from a prior firm mathematically or presentationally linked to current ongoing performance results.*
- 3. Composite performance compared with an inappropriate benchmark.*
- 4. Performance that is not clearly labeled and described in a manner that clarifies the exact nature of the information being presented (e.g., theoretical performance presented as actual performance).*

Note that in #3 above, comparing composite performance with an inappropriate benchmark is deemed false or misleading, and is prohibited from being included as supplemental information. This seems to indicate that including a market-capitalization benchmark for a smart beta composite would be prohibited, even if such a benchmark were presented as supplemental information.

We suggest that the Supplemental Information Exposure Draft be modified to be consistent with the Exposure Draft for Benchmarks.

KM thanks the CFA Institute, the GIPS Executive Committee, and the GIPS Technical Committee for the opportunity to comment on this exposure draft. We would be pleased to discuss our comments further.

Sincerely,

A handwritten signature in cursive script that reads "Kreischer Miller".

Kreischer Miller