



January 24, 2018

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

Re: Exposure Draft of GIPS Guidance Statement on Benchmarks

Dear Sir/Madam:

Thank you for the opportunity to comment on the proposed GS for benchmarks. Given the important role benchmarks play in evaluating performance, such a document is welcome. Overall, I think this is a very good 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?*

No. This should be a recommendation. One reason firms are doing this is because of the very high costs for market indexes. While I haven't yet conducted a verification for a firm that has chosen to do this, I can foresee that this may become a popular alternative to licensing the actual benchmark. But no need to explain the why behind the decision.

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

Yes.

- *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?*

No. I think this is over complicating the process. Carl Bacon¹ spoke of a goal to "simplify" the Standards; but this is making them more complex. Fine as a recommendation.

¹ At a Statpro event on GIPS 20/20 in Boston, and most likely elsewhere, too.

- *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, though I think more guidance is needed regarding how to do this, as well as the potential problems that may arise by using such an approach.

- *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

- *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?*

No. I think the disclosure should remain for as long as the period shown includes the time when the change was made.

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

Yes.

- *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; I thought this has been the case.

- *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.

- *Question 12: Do you agree that if other benchmarks are presented and labelled [sic] 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. This over-complicates the Standards. Many firms like to show additional benchmarks for reference purposes; no need to mandate all the additional disclosures.

Some additional comments: unsolicited, but hopefully appreciated

On page 4 we find “Properly used, a benchmark should be a focal point in the relationship between the firm and the fiduciary body overseeing the prudent management of the assets.” One might argue that “the firm” is the “fiduciary body overseeing the prudent management of the assets.” Perhaps some “word-smithing” is in order.

There is no reference to costs. Given that they have grown a great deal in recent years, cost should be considered a viable criteria when selecting a benchmark. Encouraging firms to seek lower cost alternatives that can provide equivalent results to the pricier indexes is a worthy addition to this document. You make reference to the “Freedom” index which is one such alternative, but fail to mention this. While I wouldn’t want to necessarily champion any specific lower cost alternative, at least making reference to this issue is warranted.

I am a bit disappointed that the seven² (now eight, with “complete”) criteria that the CFA Institute has championed for benchmarks has made its way into this document: it’s as if these are sacrosanct. The reality is that, based on the CIPM program, the only benchmark that meets all of the original seven (and now eight) is custom. Peer groups fail miserably; absolute even worse, as it only meets one of the original seven, and now only one of the eight. And market indexes fail the “relevant” criterion.

This seems to suggest that while you feel these criteria are important, you’re also quite willing to dismiss one or more of them. How can absolute be allowed if the only criterion it satisfies is “measurable”? Please do not interpret this as a suggestion that they not be permitted. I’m becoming an increasing critic of these criteria, and may soon *pen* an article to elaborate on this.

On page 6 you make reference to a firm’s policies and procedures, suggesting that they include a description of the process to determine the benchmarks for composites. There should have been an accompanying question for this. In fact, I think that perhaps it should be a requirement, especially given the important role benchmarks play.

² You changed “appropriate” to “relevant,” but it’s the same thing; and, “owned” has become “accountable.”

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We look forward to seeing the finished guidance.

Sincerely,

For
David
Spaulding

A handwritten signature in black ink, appearing to read "David D. Spaulding", written over the typed name.

David D. Spaulding, DPS, CIPM
Founder / Chief Executive Officer