

CFA Institute
Global Investment Performance Standards
Re: Guidance Statement on Verifier
Independence
915 East High Street
Charlottesville, VA 22902
USA

Email: standards@cfainstitute.org

The Investment Association

Camomile Court, 23 Camomile Street,
London, EC3A 7LL

T +44 20 7831 0898
E enquiries@theia.org
W theinvestmentassociation.org
Twitter @InvAssoc

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Dear Sir or Madam

RE: EXPOSURE DRAFT OF GIPS® GUIDANCE STATEMENT ON BENCHMARKS

The UK GIPS Country Sponsor, UKIPC is delighted to provide input to your consultation. This response is supported and endorsed by the Investment Association, the trade body that represents UK investment managers.

Whilst the statement makes a lot of sense and provides considerable useful guidance, there are a couple of parts where unintended consequences need to be avoided by tightening up the wording. We hope our responses help to provide clarity in these areas.

With regard to question 12 in particular, we feel that any matters relating to Supplemental Information should always be addressed within the relevant guidance document rather than piecemeal within other guidance statements and, as such, would suggest that inclusion of the supplemental information requirements within this statement should be reconsidered.

Yours faithfully

Adrian Hood
UKIPC Secretary



ANNEX I

RESPONSES TO QUESTIONS

- 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?**

Where a firm chooses to use an ETF in favour of a market index we believe they should be required to disclose why this selection has been made.

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

Yes, we believe the ETF chosen must be appropriate and comparable to the composite. In addition we believe that there should be a requirement to disclose further details, including the fee levied on the ETF and whether it benefited from stock-lending revenues. This is particularly relevant where a gross of fee composite is being presented.

- 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, we agree that the hedging criteria should be disclosed and that any material difference in hedging between the composite and the benchmark should be disclosed.

- 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?**

Whilst we agree that the most appropriate benchmark should be used we do feel, with consideration to benchmarks adjusted for withholding tax that this is ambiguous. Index vendors generally only provide a single net of withholding tax version of any given benchmark based on a single assumed tax regime. Investor experience may differ from this depending on their domicile relative to the one assumed in a benchmark. Investors from various jurisdictions will all be seeing the same comparator whilst experiencing different outcomes based on the tax treaties of their own domicile.

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?**

We agree that there may be occasions where creating custom benchmarks using fees and/or trading costs to provide returns comparable with the net-of fees and/or trading costs composite returns is appropriate. In such a circumstance we believe the firm must fully disclose the approach taken including the fee schedule and / or trading costs used.

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?**

As number 5 above.

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

We believe there are circumstances when income may be swept at the custodian prior to reaching the manager and in such circumstances a price only benchmark would be the most appropriate comparator as long as properly disclosed. Accordingly it may be clearer to add additional text to the paragraph above (Total Return vs Price only return benchmarks) acknowledging two scenarios; where income is swept but exists as a transaction in the manager record, and where income is swept prior to the manager accounts and therefore does not form part of the calculation. In the first instance a total return index can / should be used whilst in the second a price only index would be acceptable / appropriate. As with ETF benchmarks we feel there should be a disclosure explaining why a price only index has been used.

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, we agree with this proposal

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

Yes, we agree with this proposal

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, we agree with this proposal

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?



We agree that the firm should ensure that potential prospective clients fully understand the information being presented and that the firm should accordingly use their discretion in assessing whether the description of a benchmark could be confusing or ambiguous to an investor and act accordingly.

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?

We do not believe it is appropriate to address questions of supplemental information within the benchmark guidance. If required we feel this should be referenced in the Supplemental Information guidance paper where it can be considered as part of the wider supplemental information requirement. Providing supplemental information recommendations or requirements in other guidance statements is likely to lead to omissions or contradictions and should be avoided.