GIPS® GUIDANCE STATEMENT ON OVERLAY STRATEGIES

Comments from CFA Society, India
(GIPS India Country Sponsor)

Question 1) Are these examples regarding the determination of discretion appropriate or are additional examples or other criteria needed? If additional examples or other criteria are needed, please explain your suggestions.

We think the list presented is good enough. The key thing is to note that this is not an exhaustive list.

Question 2) Are the three "allowable methods" for calculating overlay exposure appropriate?

In general, the three methods seem appropriate. However, in certain cases they may fail as in these cases the denominator calculation is not well addressed in these methods. Example 1, beta overlay strategies where a net swap exposure equal to zero between the pay and receive side. Example 2, a liability driven overlay strategy where the overlay manager is unaware of the underlying assets. They are mandated a maximum amount of exposure to take but often times only invest a portion of it. In that situation, how much would be considered in calculating the exposure amount.

Question 3) Are there other methods for calculating overlay exposure that are also appropriate? If so, please explain.

Same concern as above in question 2.

Question 4) Should the allowable method(s) be required or recommended by strategy type? If so, please propose a required or recommended method by strategy type.

No, these should neither be recommended nor required by strategy type. Firms should be allowed to choose what applies best to them in all circumstances.

Question 5) Are the methods used to calculate the denominator in an overlay portfolio return calculation appropriate?

Yes, they are appropriate.

Question 6) Is the requirement to include collateral income in the overlay portfolio return when the collateral is actively managed appropriate? If not, should this be changed to a recommendation?

We think it makes sense to include the collateral as part of portfolio return if it is actively managed.

Question 7) Is the requirement to establish a composite specific policy on the treatment of collateral appropriate? If not, should this be changed to a recommendation?

No we don't agree as you can have different types of accounts in the same composite.

Question 8) Do you agree that the returns for overlay portfolios must be geometrically linked when the overlay exposure changes over the time period? If not, please explain what method(s) you believe is appropriate.

Yes, we agree.

Question 9) Do you agree that overlay returns must not be geometrically linked when the exposure remains constant, but rather the returns must be calculated as the cumulative profit/loss for the calculation period divided by the denominator? If not, please explain what method(s) you believe is appropriate.

Seems appropriate from theoretical stand point.

Question 10) Should text be added to this Guidance Statement recommending disclosure of the sum of (a) total firm overlay exposure and (b) total firm assets, also known as total firm economic exposure?

Recommendation should be fine as it does help an investor see the full picture.

Question 11) Are the required disclosures appropriate? If not, please explain.

Yes, they are appropriate.

Question 12) Is the proposed effective date appropriate or would additional time be needed to implement this Guidance Statement?

Seems appropriate