SAAJ The Securities Analysts Association of Japan

To: CFA Institute
Global Investment Performance Standards
Re: Exposure Draft of GIPS Guidance Statement on Overlay Strategies
Date: 27 November 2017

Dear Sir/Madam,

Thank you for the invitation to comment on the exposure draft of GIPS Guidance Statement on Overlay Strategies. The Securities Analysts Association of Japan, the country sponsor of the GIPS standards in Japan, is pleased to submit comments as follows:

Comments on Questions

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 discussion on and examples of investment discretion regarding overlay strategies presented in the exposure draft are appropriate and enough.

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

We believe that the three methods presented in the Exposure Draft for calculating the overlay exposure are appropriate and sufficient.

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

None to add.

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.

Introduction section included that "Overlay strategies are typically designed to either limit or maintain a specified risk exposure that is present in the underlying portfolio or to profit from a tactical view on the market by changing a portfolio's specified risk exposure. There are also overlay strategies that seek to add value against a specified target allocation or allocated capital at risk."

With respect to the choice among the three allowable methods for calculating the overlay exposure, we think it is reasonable to require the firm to select the calculation method that is most relevant to the overlay strategy rather than requiring or recommending certain method by strategy type.

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

The three methods to calculate the denominator for overlay portfolio return 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 support the proposed treatment of the collateral when the firm manages collateral as part of the overlay strategy.

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?

Yes. We think the policy on treatment of collateral must be established on a composite-specific basis.

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.

Assuming that overlay portfolios are generally not structured to use profit for reinvestment purposes, but quite often experience client-driven cash flows when profit or loss is realized, returns must be calculated additively rather than multiplicatively. Having said that, we do not have any established idea how to calculate returns for overlay portfolios that would experience changes in overlay exposures over time.

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.

See comment on Question 8 above.

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?

We think the recommendation of disclosing the sum of (a) total firm overlay exposure and (b) total firm assets makes sense as far as each of (a) and (b) is also disclosed for clear distinction between (a) and (b).

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

The proposed disclosure requirements are appropriate.

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

We think that the proposed effective date of 1 January 2019 is appropriate.

Other Comments

- The definition of the terms "base currency" and "exposure currency" should be clearly given with respect to "Example: Currency Overlay Exposure" on pages 7 to 8 and "Currency Overlay Composite Construction Criteria" on page 9, as it seems that the term "exposure currency" is not found on the internet in general. In the example indicated in the 2nd paragraph on page 7, it should be mentioned that "GBP" is the base currency for clarity in this case.
- The wording "will produce different (and opposite results) to a portfolio" should read "will produce

different (and opposite) results to a portfolio" in the criterion a. under "Currency Overlay Composite Construction Criteria" on page 9.

- Although it is a minor editing point, headlines are numbered from page 6 (for instance "3. Definition of Investment Discretion") while those on pages 4 and 5 are not numbered (for instance "Introduction" and "Common Types of Overlay Strategies").

Sincerely yours,

Yoh Kuwabara

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Investment Performance Standards Committee of SAAJ

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