

GIPS® GUIDANCE STATEMENT ON BENCHMARKS

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

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?

We disagree with the proposed requirement. If a firm chooses to use an ETF instead of a market index, it is important to clearly label and disclose this within the compliant presentation; however, we see little value in additional disclosure as to the reason why the ETF was chosen over the market index. A more appropriate relevant disclosure would be to note the difference between an ETF vs. a market index.

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

In general, we agree with the intent of this requirement.

- The current use of the word “comparable” is ambiguous as there can be a variety of fees and expenses included within the expense ratio of an ETF, so it is unclear what is necessary to make them comparable.

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 we agree.

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?

Yes, if available. In a lot of cases there may be no benchmarks reflecting the same withholding tax status as that of the portfolios in the composite. In such a case, if there are material differences then a disclosure must be required.

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.

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. However, firms should be made to disclose additionally that the asset classes contained in the composite do not create any 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?

We think the change needs to be disclosed for at least one year if the change has been made retroactively. However, if the benchmark change has taken place prospectively, then a firm must disclose the old and the new benchmark and the reason for the change until the old benchmark completely drops off the compliant presentation.

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

Yes. See our response to question 8 above.

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?

No. As the term "readily recognized" can be matter of subjectivity, it is better to continue providing the full benchmark description.

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?

The benchmark description should be a must and not be based on "readily recognized" criteria as this is very ambiguous and what is readily recognized to one person may not be to the other and vice-versa.

Question 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 present?

We don't think so. That would result into too much of information overload. But the firm should make an offer to provide the detailed description of the multiple benchmarks if asked by the clients.