

CFA Institute
Global Investment Performance Standards
915 High East Street
Charlottesville, VA 22902
USA

Frankfurt, 29 January 2018

Re: Exposure Draft of GIPS Guidance Statement on Benchmarks

Dear Ladies, dear Sirs,

On behalf of the German Country Sponsor GAMSC, we thank you for providing us with the opportunity to comment on the Exposure Draft of GIPS Guidance Statement on Benchmarks. We appreciate the efforts to update and extend the GIPS and the opportunity to support this process with the following comments.

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.

We don't see any reason why firms should be required to disclose why they have chosen this type of benchmark. There is no such requirement for other types of benchmarks. ETFs as benchmarks have grown in popularity because an ETF shows the performance of the most cost-efficient alternative which is open to the investor. We fully support that the guidance statement on benchmarks stays abreast of this development by allowing this type of benchmark. Given the well-known advantages of ETF benchmarks for a performance comparison, in particular on a net-of-fees basis, the disclosure requirement doesn't seem reasonable from our point of view.

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?

Yes.

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?

No.

We are of the opinion that the creation of custom net-of-fee benchmarks gives rise to the possibility of performance manipulation. Even with a disclosure requirement a transparent and adequate result cannot be guaranteed and the reader will normally not be able to

understand or reconstruct the calculation. As with the use of after-tax-benchmarks only highly standardized and widely known net-of-fee-benchmarks should be allowed for usage.

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?

No.

We do not fully agree with the proposed treatment of price-only benchmark returns. This is due to the fact that it might be too easy to circumvent the idea of no cherry picking by using price-only returns. Even if there is one scenario where this might be appropriate (gold), in most, if not all other cases, there are existing possibilities to use securities, e.g., derivatives for investing in commodities and therefore to avoid price-only benchmarks. The use of a price-only benchmark should only be allowed in cases of missing (investable) total return indices. A price-only benchmark which is not directly investable for a portfolio manager is not appropriate.

Moreover, just defining a commodity index as total return index seems somewhat misusing the terminology although a comprehensive definition of total return was not included in the guidelines - rather a description of the use of the terms.

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.

From our point of view it is very important to state (even explicitly in the guidance statement) that a firm must take every possible effort to prevent retroactive benchmark changes, which are generally against the principles of the GIPS standards. However, we recognize that there may be a few situations, which require a retroactive benchmark change. In these cases we are in favor of the disclosure to remain in the presentation, as it can be an important information to the reader. If the possibility to remove the information is to be introduced nevertheless, we strongly advice to prescribe a minimum disclosure period of 5 years to prevent an interpretation of the phrase "once it is no longer meaningful" by the firm to the disadvantage of the reader.

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

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 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?

Yes

General comments:

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To reduce some confusion about the varying appropriateness of some benchmark types with respect to the eight mentioned criteria we propose to modify the introduction of the chapter "Types of Benchmark" in the following way:

"There are a number of benchmarks commonly used. The following are some of the options which are more or less adequate to be in line with the eight building blocks of a 'good' benchmark:

Due to some aspects of common practice and notional consistency we propose a more comprehensive wording of chapter "Types of Benchmark, c, d)":

c. Custom: [...weights, and rebalancing process.] Examples of Custom benchmarks are Total Return strategies which are commonly linked to more than one asset class (dynamic definitions e.g. in a context of asymmetric strategies (e.g. CPPI) or to an otherwise conditional multi-period setting (e.g. LDI; comparisons to a fixed level of spending). [...]

d. Absolute Return: Absolute Return strategies are commonly linked to short term interest rate benchmarks (e.g. Money Market Rate plus 5%) or otherwise defined Absolute Value (e.g. 5% average annual return). Target Return strategies (e.g. CPI+5% or a defined range of average annual return) are popular with market neutral approaches (e.g., certain types of hedge funds) in which the investment strategy has a substantially reduced or nearby eliminated exposure to market risk. ~~[It may also be used to compare the success of a strategy to a fixed level of spending.]~~

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Regarding the use of ETFs as a benchmark, we propose to add the requirement to disclose the valuation source, i.e. whether NAV or stock exchange prices are used.

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We welcome the requirement to disclose the components and weights of portfolio-weighted custom benchmarks. However, with respect to clarity and utility of information, a certain threshold regarding the minimum size of components should be introduced that may be combined with the requirement to cover at least a minimum proportion of the overall benchmark. Therefore, we propose the following adaption of the passage:

[In the spirit of full disclosure and fair representation, firms must disclose the components that comprise the portfolio-weighted custom benchmark, including the weights that each component represents, as of the most recent annual period end.] To ensure clarity and utility for the reader, the firm may decide not to present components with less than 2% weight. At the same time the listed Benchmark components have to sum up at least 90% of the overall Benchmark. Otherwise components must be added from large to small, until the 90% threshold is achieved. [Firms should also offer to provide this information for prior periods upon request.]

Yours sincerely

Signed Rudolf Siebel
BVI

Signed Harald Edele
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