



Basis Point Solutions

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29 January 2018

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

Dear Sir or Madam,

Thank you for the opportunity to comment on the proposed Guidance Statement on Benchmarks. The selection and use of benchmarks are a fundamental part of investment management and investment performance evaluation.

Basis Point Solutions (BPS) is the premiere provider of consulting services for the Global Investment Performance Standards (GIPS®) and CFA Institute Asset Manager Code. Basis Point Solutions offers training and consulting services to the global investment management industry and specializes in implementation consulting for the GIPS standards.

I found the draft Guidance Statement to be well written and a valuable addition to the GIPS body of content. Beyond the GIPS standards, I believe this paper will be a valuable and welcomed resource to the industry in general.

My first concern with the proposed Guidance Statement has to do with the transparency and clarity of any imbedded requirements and recommendations. Such elements must be clearly identified and called out within the document. There are several instances of “must” and “should” and at least one instance of “may consider”, which could be interpreted as a recommendation. These items should be listed out separately, perhaps in an appendix, to be explicitly clear as to any new requirements or recommendations this Guidance Statement imposes.

I am also very concerned that the Guidance Statement only recommends the disclosure of material differences between the benchmark and the composite’s investment mandate, objective, or strategy. Few things are more important than such a disclosure when considering the principles of fair representation and full disclosure. This must be a must. A firm that presents a benchmark that is materially different than the composite mandate, objective, or strategy and does not disclose this would be in violation of provision 0.A.3 that prohibits the presentation of any performance or performance-related information that is false or misleading. Comparing a composite with a benchmark that has a material difference in strategy is misleading. In fact, I don’t think the use of such a benchmark should be permitted at all. The GIPS standards require that a benchmark reflects the composite’s mandate, objective, or strategy. How can the standards allow the use of a benchmark that is materially different (i.e., not the same) as the composite? This is incongruous and not internally consistent with the rest of the standards.

Regarding benchmark descriptions, I agree with the discussion and the importance of this disclosure. I don't, however, agree with the requirement that compliant presentations on a company website are required to include the benchmark description even when the benchmark is readily recognized. It isn't that I disagree with the intent, but I disagree with having different sets of requirements for presentations depending on where they are posted or presented. I suggest language that is a bit broader, such as "If firms are unsure of who may be reviewing the compliant presentation (e.g., a presentation posted on a company website), they should err on the side of caution and include the benchmark description even for readily recognized industry benchmarks."

Finally, in the section titled "Policies and Procedures", the third paragraph seems out of place. The statement that material differences in hedging between the composite and the benchmark must be disclosed does not seem to fit within the section on policies and procedures. The subsequent sentence discusses creating a policy on materiality, but it is unclear if this is in relation to the previously mentioned differences in hedging, or if this is a policy on materiality in general, or both.

In relation to the questions posed in the proposed Guidance Statement, please find our responses below.

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?

BPS response: Yes. ETF's are not a perfect replication of a market index and can have different risk exposures. Therefore, such a disclosure provides meaningful and material information to prospective clients.

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

BPS response: Yes. As discussed above, a non-comparable benchmark should not be permitted.

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?

BPS response: Yes. Hedging can have a material impact on the strategy and the returns, so this must be disclosed. Any material differences in hedging between the composite and the benchmark must be disclosed to allow the investor to make an informed decision.

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?

BPS response: Yes. Doing so allows for greater comparability.

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?

BPS response: Yes, but only if the gross benchmark return is also presented. I believe some thought must go into how such modified benchmarks are labeled as they have the potential to be very confusing, if not misleading.

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?

BPS response: Yes, of course.

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

BPS response: Price-only benchmarks should not be permitted. A “price-only” benchmark conveys that there is income, but it is not included. Total return benchmarks with zero income may be allowed as described because they are still total return benchmarks.

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?

BPS response: No. Who determines how long the benchmark is meaningful? The firm. In reality, this should be the prospective client. Benchmark changes, particularly retroactive changes, set off red flags and, as such, must be disclosed. In lieu of disclosing at the firm’s discretion, I would suggest a minimum of ten years.

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

BPS response: Yes. Firms should not be changing the order frequently, so this should not be a significant burden. At the same time, in relation to other disclosures, this does not have as much value.

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?

BPS response: Yes, although as stated above, firms should be cautious and consider who may be viewing the presentation.

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?

BPS response: Yes.

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?

BPS response: In some ways, I think this depends on how the information is being used and/or discussed. If they are being used as alternate benchmarks, then yes, the other metrics of these benchmarks should be presented. If they are simply being used as a point of comparison (e.g., opportunity cost), then probably not. What should not be allowed is for firms to include

alternate benchmarks as supplemental information (without the corresponding presentational items) yet refer to it in their discussions with prospective clients as if it were the required benchmark in the compliant presentation.

Thank you for the opportunity to provide input on this important Guidance Statement. If you should have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink that reads "Jonathan Boersma". The signature is written in a cursive style with a large initial 'J'.

Jonathan A. Boersma, CFA
CEO
Basis Point Solutions