CFA Institute
Global Investment Performance Standards
Re: GIPS 2020 Exposure Draft
915 High East Street
Charlottesville, VA 22902
USA

Frankfurt, 28 December 2018

Re: Exposure Draft of the 2020 GIPS Standards

Dear Ladies and Gentlemen,

On behalf of the German Country Sponsor GAMSC, we thank you for providing us with the opportunity to comment on the Exposure Draft of the 2020 GIPS Standards. We appreciate the efforts to update and extend the GIPS with the new standards and the opportunity to support this process with the following comments.

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QUESTIONS FOR PUBLIC COMMENT: GIPS 2020 EXPOSURE DRAFT

Request for Comment #1

We use the terms "limited distribution pooled fund" and "broad distribution pooled fund." A limited distribution pooled fund is typically sold in one-on-one presentations and offers participation in that specific fund (e.g., hedge funds, commingled funds). In some markets, these funds are not highly regulated. Broad distribution pooled funds are typically sold to the general public, and the firm may not know the client. These funds are typically highly regulated.

a. Are the terms limited distribution pooled fund and broad distribution pooled fund easily understood?

   The differentiation is generally easy to understand (ie. the distribution criterion: one-to-one vs. multiple investors), but in some cases the similarity in wording might complicate a clear differentiation.

b. Are there terms that would better differentiate these two categories of funds? One suggestion is to use the terms "private funds" and "public funds."

   We see no need for further differentiation in GIPS. The categories "limited distribution pooled fund" and "broad distribution pooled fund" should/could be specified according to national law.

Request for Comment #2

Currently, the GIPS standards are silent on how quickly firms must update GIPS compliant presentations.
(The term compliant presentation has been replaced with GIPS Composite Reports and GIPS Pooled Fund Reports. We also use the term GIPS Report to include both GIPS Composite Reports and GIPS Pooled Fund Reports.) Some firms present returns that are several years old, often providing as the rationale the fact that they are waiting for the verification to be completed before updating the reports. We believe that firms should be required to update GIPS reports on a timely basis, even if the verification is not complete.

a. Do you agree that firms should be required to update GIPS reports within a specified time period?

Yes, the new GIPS 2020 approach regarding update requirements is a key improvement towards the two overarching GIPS objectives of "comparability" and "consistency".

b. Do you agree that six months is the appropriate amount of time?

Yes, it is an appropriate compromise in order to limit additional costs and opportunistic behaviour. Six months could be a minimum requirement, as we would prefer a quarterly update. If there is a lack of data, firms should be asked to explain why no update has been carried out.

Request for Comment #3

Firms are required to include terminated pooled funds on the respective list for at least five years after the pooled fund termination date. This approach is consistent with the requirement for the list of composites.

a. Is it appropriate for firms to include terminated pooled funds on these lists when the pooled funds are not available for prospective investors?

Yes, for reasons of consistency.

The focus of the GIPS is on the mapping of ex post performance. However, the objective is to create added value for prospective investors. Every existing investor can also be implicitly regarded as a prospective investor who derives information for the future from historical data. The omission of historical information from terminated pooled funds would therefore significantly reduce value for investors.

The mere existence and number of closed-end funds provides information about the work of the GIPS unit as a whole. The argument that the pooled fund cannot be bought (anymore) applies to every composite.

Request for Comment #4

Currently, firms are required to provide a complete list of composite descriptions to any prospective client that makes such a request. Under the new GIPS 2020 structure, firms can manage strategies for three types of products; composites, limited distribution pooled funds, and broad distribution pooled funds. This approach also creates three types of prospects: prospective clients for composites, prospective investors for limited distribution pooled funds, and prospective investors for broad distribution pooled funds.

a. Considering limited distribution pooled funds, we expect that firms would either wish to or would be required by regulation to tailor the list of these funds to the individual prospect. For example, a firm that offers these funds to prospects throughout the world would include only the funds appropriate to an Investor in Switzerland if a Swiss prospect asked for this list. Do you agree that firms should be required to provide a list of only those funds that are appropriate to the specific prospect?

No, the aim of a GIPS presentation is to provide a complete presentation, not to "advertise" products available to an investor.

Only the division into the three groups of potential investors must be adhered to. The argument in the question directly aims at the possibility of buying a product. Composites cannot be bought for any reason. No differentiation should be made within the same group of potential investors.

In addition, as complete an overview as possible of the range of strategies and managers across regional constraints is informative and avoids cherry picking opportunities and limitations on comparability. Sales restrictions based on regulatory peculiarities must not lead to a narrowed view of the overall performance picture, especially as the concept of compliance continues to be based on the "firm".

b. Unlike the lists for composites and limited distribution pooled funds, which must include both the name and the description of either all composites or limited distribution pooled funds, firms that manage broad distribution pooled funds would instead be required to have a list of such funds, and provide that list upon request. As a second step, firms would be required to provide the description of any broad distribution pooled fund upon request. We took this approach to acknowledge that

many firms manage very large numbers of such funds, and maintaining a list of descriptions could be very challenging. We also acknowledge that most firms have very limited contact with prospects for these funds, if any. Do you agree with this two-step approach for broad distribution pooled funds?

Yes, information on retail funds is available through other channels.

Request for Comment #5

In the GIPS 2010 edition, the notion of portability hinges on the requirement that performance from a past firm or affiliation must be linked to or used to represent the historical performance of a new or acquiring firm if, on a composite-specific basis, certain criteria are met. We have received feedback over the years that firms that do not want to meet the criteria will not do so, and portability will not be achieved. We decided to change the perspective and allow firms to choose to port returns if certain criteria are met.

a. Do you agree that firms should be allowed to choose, for each composite or pooled fund, when returns from a prior firm or affiliation are used to present the historical performance of the new or acquiring firm, if certain tests are met?

   Yes, the treatment of structural breaks, e.g. through manager changes, will always be a problem in ex ante/ex post transfers. A solution that provides the greatest possible transparency is always acceptable.

   Even if a minimum of cherry picking may be possible here, the criteria for "yes" should be set in a way that the "new firm" actually continues the work of the acquired companies.

b. The one-year grace period allows a firm that acquires a non-compliant firm to not lose its compliant status because it does not immediately meet the requirements of the GIPS standards for the acquired assets. Do you agree that the one-year grace period should apply only to performance at the new or acquiring firm, and that firms should be able to port history from the prior firm or affiliation after the one-year grace period?

   Yes, if the absorbing firm was GIPS compliant, new assets only need to be transferred into already existing policies. This should be possible within one year.

c. In addition to the three tests that a firm must meet if it wishes to link performance from a prior firm or affiliation, there is a fourth test that must be met. There must not be a break in the track record between the prior firm or affiliation and the new or acquiring firm. Should this test be specified within this provision?

   Yes, any break in the track record raises questions about structural changes.

Request for Comment #6

Firms may choose to present money-weighted returns instead of time-weighted returns for a specific composite or pooled fund if the firm controls the cash flows and meets at least one of the additional criteria for the composite or pooled fund.

a. Are the additional criteria the correct criteria for determining if money-weighted returns may be presented?

   No. Time weighted returns must always be prioritized for various theoretical reasons, in particular to ensure maximum comparability. In the case of money-weighted returns, it can only be achieved to some extent and in combination with a public market equivalent. In addition, the money-weighted return concept suffers from the fiction that the returns cannot be reinvested.

   Thus, criteria for the use of money weighted returns need to be set restrictively. Money weighted returns should only be used if formal criteria are fulfilled:

   1. due to data availability, ie. a meaningful time weighted return cannot be calculated (lack of synchronization of cash flows with fund valuation due to illiquidity),
   2. the company has control over external cash flows.

Instead of specifying product types, a universally valid differentiation should be based exclusively on above formal criteria, independent from an enumeration of product types.

b. Are the appropriate names used for these additional criteria?

   These product types should not be listed in the new provisions, but as examples in a Guidance Statement at best. The undifferentiated use of the terms is problematic, as the spectrum of product characteristics is broad. For example, it is unclear why time-weighted returns should not be presented for exchange-traded closed-end funds.

c. Should firms instead be required to present money-weighted returns versus time-weighted returns for a specific composite or pooled fund when the firm controls the cash flows and it meets at least one of the additional criteria?

   Yes, the presentation of time-weighted returns should be mandatory whenever they can be calculated in a meaningful manner (approximatively, if necessary). Money-weighted returns can optionally be calculated for comparison.

Request for Comment #7

Currently, total firm assets must include both discretionary and non-discretionary assets managed by the firm. In the GIPS 2020 Exposure Draft, this requirement still holds. In the GIPS 2020 Exposure Draft, however, we allow firms to present advisory-only assets that are not managed by the firm but require that advisory-only assets be presented separately from total firm assets. This approach is to recognize that many firms' business models are changing. Also, firms have approached the treatment of committed capital differently when calculating total firm assets. Some firms consider committed capital to be part of total firm assets because the firm is charging an investment management fee on the committed capital. Other firms exclude committed capital because it is not under management before capital is called. We propose that firms must not include committed capital in total firm assets.

a. Do you agree that firms should be required to not include advisory-only assets in total firm assets?

   Yes. In these cases, management performance is not or at best only partially evident: As a rule, the main performance contribution will be made by the advisory rather than by the implementation (influence of transaction costs, implementation lag, etc.). In this respect, the exclusion of advisory-only assets in the overall view prevents a distortion of the responsible performance statement.

b. Do you agree that firms should be required to not include committed capital in total firm assets?

   Yes, as a rule there is no explicit, direct performance responsibility for committed capital. This would only be appropriate if the timing responsibility (for external cash flows) was clearly identifiable. No investment can be made in committed capital; no management performance can be observed.

Request for Comment #8

Currently, all returns must be calculated after the deduction of actual trading expenses incurred during the period, and estimated trading expenses are not allowed. When the GIPS standards were originally created, trading expenses were generally higher than they are now and were more standardized. Today, trading expenses can be charged in a variety of ways and may not be under a firm' control. Indeed, in some instances, firms may not have the ability to determine how or where trading expenses are charged. We have decided to introduce allowing estimated transaction costs (the term that replaces trading costs) for composites if returns calculated using estimated transaction costs are equal to or lower than those that would have been calculated using actual transaction costs.

a. Do you agree that estimated transaction costs should be allowed?

   No. Regardless of the level of transaction costs, the basic problem with the current GIPS remains. In investment practice, a consistently low distortion estimate of transaction costs appears unrealistic.

   Otherwise, the underlying assumptions of the estimate would have to be disclosed. Uniform specifications are unlikely.

b. Do you believe that firms will have the ability to determine if estimated transaction costs are more conservative than actual transaction costs?

No. It is not clear why a "conservative" cost estimate should be more informative than an "actual" cost estimate. Estimates regularly give rise to implementation (validation) and incentive problems that create specific monitoring effort.

Research costs and their relationship to transaction costs have become a focus in some markets. We do not specify how research costs must be treated, and we also do not require any related disclosures.

c. Should firms be required or recommended to treat research costs in a specific way?

Yes, since the beginning of 2018, EU legislators have required in MiFID II/MiFIR that brokers report research costs separately from transaction costs and settle them separately.

d. Should firms be required or recommended to disclose how research costs are reflected in returns?

Yes, as research costs in the EU are reported separately, this information is available anyway.

e. Should firms be required or recommended to disclose if research costs are separately charged to clients?

Yes. As a rule, the publication of side pockets is welcomed.

Request for Comment #9

The Guidance Statement on Alternative Investment Strategies and Structures provides guidance for firms that manage alternative strategies if the firm places reliance on valuations that are received with a significant time lag (e.g., for portfolios or funds invested in third-party hedge funds). There is some concern that firms may adopt the use of preliminary, estimated values for liquid strategies where more appropriate valuations are available.

a. Should this guidance be limited to certain types of assets, such as investments in third-party private market investment funds?

Yes. Since this is an exception to the rule, narrow boundaries should be drawn. This means that in order to increase comparability and limit the potential for abuse, the application of the rule should be restricted to certain market segments and include operational criteria (e.g. bid/ask range limit).

b. Should this guidance instead continue to be included in guidance rather than included as a provision?

Yes, if the problem of differentiation is solved, a quick transfer to the provisions is recommended.

Request for Comment #10

When calculating since-inception internal rates of returns (now referred to as money-weighted returns), currently private equity portfolios are required to use daily external cash flows for periods beginning on or after 1 January 2011. Real estate closed-end funds are required to use quarterly or more frequent external cash flows. It is proposed that all portfolios and pooled funds, including private equity, would be required to use daily cash flows when calculating money-weighted returns for periods beginning on or after 1 January 2020, and quarterly external cash flows for periods prior to 1 January 2020.

a. Do you agree that firms should be required to use daily external cash flows as of 1 January 2020 when calculating money-weighted returns?

Yes, we see this provision as a key improvement, which is necessary due to the very broad availability of data, because it considerably improves performance measurement precision.

b. Is the change to lessen the required frequency for private equity for periods prior to 1 January 2020 appropriate?

Yes, the minimum requirement does not appear excessively strict, given data availability in recent years.

Request for Comment #11

Currently, real estate investments are required to receive an external valuation at least once every 12 months, with an exception for when clients opt out of the external valuation. In that case, firms must obtain an external valuation at least once every 36 months. We expanded the notion of external valuation beyond the current requirement for real estate to private market investments but broadened the type of timberland, private equity, and similar investments that are illiquid and not traded on an exchange. These assets must have an external valuation, valuation review, or be subject to a financial statement audit at least once every 12 months.

a. Do you agree that private market investments should be required to have an external valuation, valuation review, or be subject to a financial statement audit?

Yes, the valuation of illiquid assets is not likely to be reviewed by investors. In addition, the relevant valuation practices offer considerable scope for interpretation and error (e.g. smoothing, lags, etc.). A supplementary external evaluation (review/audit) therefore makes sense (analogous to GIPS Verifying) and indicates neutrality.

b. Is once every 12 months the appropriate valuation frequency given the expanded types of valuation that are allowed?

Yes, even for highly illiquid investments, an annual valuation frequency should be an appropriate minimum standard.

c. Are there any other types of valuation that should also be allowed?

No. For reasons of comparability, no further differentiation should be made; the information should not be diluted further.

Request for Comment #12

Currently, firms are required to present returns both with and without side pockets, when a composite includes only one pooled fund that has discretionary side pockets. Composites with multiple portfolios are not required to present returns both with and without side pockets. To eliminate differences between composites and pooled funds, and to acknowledge that firms should be accountable for all returns, including those of side pockets, firms will be required to present returns that include side pockets. Firms will not be required to present returns that do not include side pockets.

a. Do you agree with this approach?

Yes. These are discretionary assets. In addition, a comparison of the performance of aggregates with and without side pockets is difficult to interpret and may be misleading. Thus, the loss of transparency is in this case acceptable.

Request for Comment #13

Firms are recommended to use gross-of-fees returns when calculating risk measures.

a. Do you believe that firms should instead be recommended to use net-of-fees returns to calculate risk measures when only net-of-fees returns are presented in a GIPS Composite Report or GIPS Pooled Fund Report?

No. The relevant risk results from the investment decisions.

For reasons of comparability and the necessary risk-related focus on the asset structure, it makes sense to limit the calculation of risk measures to gross returns - at least within the scope of a recommendation.

b. Would your answer differ when there are performance-based fees or carried interest?

No.

Request for Comment #14

Currently, firms are allowed to create sponsor-specific composites that include only that specific sponsor's wrap fee portfolios, when presenting performance to that sponsor. We removed the concept of a sponsor-specific wrap fee composite. Firms may still present sponsor-specific performance, but we view this as client reporting versus composite reporting to a prospective client. We also changed the term from wrap fee/SMA to wrap fee.

a. Do you agree with these changes?

Yes.

Request for Comment #15

To be responsive to specific constituencies, including private wealth managers and managers of private market investments, we propose that firms may once again allocate cash to carve-outs. If firms choose to allocate cash to a carve-out, they must do this for all carve-outs managed in that strategy. Once a firm obtains a standalone portfolio managed in the same strategy as the carve-out. the firm must create a composite that includes only standalone portfolios and must present the performance of this composite alongside the performance of the composite that includes carve-outs with allocated cash.

a. Do you agree that firms should be allowed to include in composites carve-outs with allocated cash?

Yes, a carve-out with separate cash management can de facto be regarded as a separate portfolio with its own strategy, and perhaps its own management. Furthermore, omitting allocated cash from the carve-out would distort performance measurement from a timing perspective.

b. Should firms be required to use a specific method to allocate cash to carve-outs?

Theoretically, yes. However, we believe that it is difficult or even impossible to formulate a uniform procedure for all carve-outs.

It is crucial that cash components are not ignored or counted several times (to maintain consistency). A supplementary set of rules would be helpful with regard to synthetic cash and the allocation problem.

c. Do you agree that firms should be required to create and maintain a composite that includes only standalone portfolios?

No. We think this would lead to confusion. Presenting a particular investment strategy in a composite is more important than differentiating between standalone and carve-out.

Prospects could ask, if they are interested. Either the carve-out should be allowed and therefore equivalent to composites, or inclusion should be dropped. If necessary, the percentage of carve-outs should be shown.

Request for Comment #16

In GIPS 2010, firms are required to present income and capital component returns for real estate composites. When calculating these component returns, firms are required to calculate each component return separately. As part of the move to eliminate asset class provisions, we have deleted these real estate-specific requirements and have expanded the concept of component returns to all composites and pooled funds. Firms would be allowed to derive one of the component returns as the difference between the total return and one of the calculated component returns. We acknowledge that component returns are widely used in some markets, but not in others. We therefore are recommending component returns to be included in GIPS Composite and Pooled Fund Reports that include time-weighted returns, and we expect that firms will present component returns where it is customary for a specific market to do so.

a. Do you agree with eliminating the requirement for real estate portfolios to present component returns?

   Yes. That would be a simplification, but not a step backwards. There has been consistent progress towards the objective of eliminating asset class provisions.

b. Do you agree with eliminating the requirement for real estate portfolios to separately calculate component returns?

   Yes, the approach of the GIPS 2010 is methodologically questionable and includes a free option with cherry picking potential. Component returns are not exclusively relevant for real estate.

c. Do you agree that component returns should be recommended for all composites and pooled funds when time-weighted returns are presented?

   Yes, an obligation is not recommended given the specific problems (attribution analysis, differentiation of timing and selection). In addition, it is questionable why the breakdown of returns is relevant at all in the context of a composite report.

Request for Comment #17

We frequently hear that too many disclosures are required in GIPS reports. We have introduced sunset provisions where possible—that is, although all disclosures must be included for at least one year, some disclosures may subsequently be deleted once the firm determines that they are no longer relevant to interpreting the performance track record.

a. Do you agree that firms should be allowed to delete some disclosures once the firm determines that they are no longer relevant to interpreting the performance track record?

   Yes, some disclosures are not material and their length can cause presentations to become confusing so that important disclosures are overlooked.

   However, in individual cases it is questionable whether the firm (or asset owner) is properly able to assess whether a disclosure is no longer relevant for the assessment of a track record.

b. Did we correctly identify the disclosures that should be allowed to be deleted once the firm determines that they are no longer relevant to interpreting the performance track record?

   The question should be further specified.

Request for Comment #18

A Guidance Statement on Overlay Strategies has been exposed for public comment but has not been finalized. A key concept within this Guidance Statement is discussion of the various methods that can be used to calculate returns for overlay strategy portfolios. Because of the unique nature of overlay strategy portfolio return calculations, we propose requiring firms to disclose details about these calculations.

a. Do you agree that firms should be required to disclose details about these calculations for overlay strategy composites?

   Yes. Since there are several possibilities here (volume of managed notional exposure, value of underlying portfolio, defined target exposure) and since management could also be outsourced, we consider it necessary to specify details.

b. Are there other disclosures that would be meaningful that are specific to overlay strategy returns calculations?

   The question should be further specified.

Request for Comment #19

We have expanded the ability to present money-weighted returns beyond private equity composites and closed-end real estate funds, if certain criteria are met. In GIPS 2010, compliant presentations for private equity composites and closed-end real estate funds are required to include since-inception internal rates of return (now renamed money-weighted returns) through each annual period end. For example, a private equity composite that has been in existence for four years would present four since-inception money weighted returns. We propose to instead require firms to present money-weighted returns for only one period: from the composite's inception through the most recent annual period end.

a. Do you agree that firms should be required to present returns for only one period—from inception through the most recent annual period end?

   No. The abbreviated presentation of the money-weighted returns (i.e. IRR) results in a considerable loss of information, as performance volatility is not shown over time. Period returns, whether overlapping or non-overlapping, are always of interest in performance analysis.

Request for Comment #20

Subscription lines of credit are being used by more firms and for longer periods. These lines of credit can have a significant effect on returns. As has been widely discussed in the industry, there has also been a lack of consistency in return calculations when lines of credit are used. For comparability and transparency, we propose requiring firms to present returns both with and without the subscription line of credit activity, whenever any line of credit has been used. A return with the line of credit reflects line of credit activity as an external cash flow.

a. Do you agree that firms should be required to present returns both with and without the subscription line of credit activity?

   Yes, this is the only way to show whether the use of the credit line had a positive result and is therefore essential for quality assessment.

   From a performance analysis point of view, this provides valuable indications of timing quality.

b. Should we be describing returns with and without the subscription line of credit differently? For example, some firms refer to these returns as levered and unlevered returns.

   Yes. A clear differentiation is required.

c. Do you agree that firms should be required to treat all lines of credit the same and not differentiate between short-term and long-term lines of credit?

   Yes, the financing structure should be irrelevant for reporting purposes (consistency, comparability). Should a particular financing structure have been advantageous, this will be reflected in the performance and no further differentiation will be required. A note on the duration of liabilities is worth considering from a risk perspective.

d. We propose requiring returns with and without the subscription line of credit activity only when money-weighted returns are presented. There is no comparable requirement when time-weighted returns are presented. Do you agree that this is the correct approach?

   Yes (with limitations). Timing effects from leverage are likely to be more pronounced in illiquid assets in the context of MWR. Nevertheless, the basic question of isolating timing effects is independent of the performance measure used (TWR/MWR). In this respect, in a TWR environment, at least a recommendation should be made on a different return presentation (with and without the subscription line of credit activity).

Request for Comment #21

In GIPS 2010, compliant presentations for private equity composites and closed-end real estate funds are required to include certain information about committed capital, distributions, and related multiples as of each annual period end. For example, a private equity composite that has been in existence for four years would present four series of information about committed capital, distributions, and related

multiples. Consistent with the proposed change to require firms to present only one return—the since-inception money-weighted return through the most recent annual period end—we require information about committed capital, distributions, and related multiples as of the most recent annual period end.

a. Do you agree that firms should be required to present information about committed capital, distributions, and related multiples only as of the most recent annual period end?

   No. See Comment #19: There are the same performance measurement and conceptual concerns; valuable information would be lost here as well.

Request for Comment #22

Once a firm obtains standalone portfolios that are managed in the same strategy as the carve-out with allocated cash, the firm must create a composite that includes only standalone portfolios and must present the performance of the composite of standalone portfolios along with the performance of the composite that includes portfolios with allocated cash. The composite that includes carve-outs with allocated cash will have a different inception date from the composite of standalone portfolios.

a. Do since-inception money-weighted returns with different start dates provide helpful information to prospective clients?

   Yes, but whether a meaningful comparison is possible depends a) on transparency about the differing inception dates and b) on the adequate handling of the information.

   The potentially limited comparability can be significantly reduced by calculating the PME. A fully aggregated consideration of all components of a composite, including all cash flows, does not raise concerns about comparability with other, similarly structured composites.

Request for Comment #23

We frequently hear that too many disclosures are required in GIPS reports. We have introduced sunset provisions where possible—that is, although all disclosures must be included for at least one year, some disclosures may subsequently be deleted once the firm determines that they are no longer relevant to interpreting the performance track record.

a. Do you agree that firms should be allowed to delete some disclosures once the firm determines that they are no longer relevant to interpreting the performance track record?

   See our answer to #17: Yes, some disclosures are not material and their length can cause presentations to become confusing so that important disclosures are overlooked.

   However, in individual cases it is questionable whether the firm (or asset owner) is properly able to assess whether a disclosure is no longer relevant for the assessment of a track record.

b. Did we correctly identify the disclosures that should be allowed to be deleted once the firm determines that they are no longer relevant to Interpreting the performance track record?

   The question should be further specified.

Request for Comment #24

Investors in a pooled fund will be impacted by all fees and costs incurred by the fund. Therefore, we require firms to present pooled fund returns that are net of all fees and expenses.

a. Do you agree the firms should be required to present pooled fund returns that are net of all fees and expenses?

   Yes, especially investors of pooled funds with their standardized remuneration structures are interested in the "net-of-all-fees and expenses returns", as their aim is to assess whether active management performance after costs has led to outperformance. By definition, changes in the remuneration structure are not relevant to performance in a gross-of-fee analysis. A comparison of gross-of-fee returns with net-of-fee returns only makes sense ceteris paribus (i.e. with exactly the same assets).

Request for Comment #25

In GIPS 2010, firms are required to present income and capital component returns for real estate composites. When calculating these component returns, firms are required to calculate each component return separately. As part of the move to eliminate asset class provisions, we have deleted these real estate-specific requirements and have expanded the concept of component returns to all composites and pooled funds. Firms would be allowed to derive one of the component returns as the difference between the total return and one of the calculated component returns. We acknowledge that component returns are widely used in some markets but not in others. We therefore are recommending component returns to be included in GIPS Composite and Pooled Fund Reports that include time-weighted returns, and we expect that firms will present component returns where it is customary for a specific market to do so.

a. Do you agree with eliminating the requirement for real estate portfolios to present component returns?

   Yes, there has been a clear improvement regarding eliminating asset class provisions.

b. Do you agree with eliminating the requirement for real estate portfolios to separately calculate component returns?

   Yes. The procedure is methodologically questionable and implies cherry picking potential.

c. Do you agree that component returns should be recommended for all composites and pooled funds when time-weighted returns are presented?

   Yes, an obligation is not recommended given the specific problems (attribution analysis, differentiation of timing and selection).

Request for Comment #26

We frequently hear that too many disclosures are required in GIPS reports. We have introduced sunset provisions where possible—that is, although all disclosures must be included for at least one year, some disclosures may subsequently be deleted once the firm determines that they are no longer relevant to interpreting the performance track record.

a. Do you agree that firms should be allowed to delete some disclosures once the firm determines that they are no longer relevant to interpreting the performance track record?

   See Comment #17, #23.

b. Did we correctly identify the disclosures that should be allowed to be deleted once the firm determines that they are no longer relevant to interpreting the performance track record?

   The question should be further specified.

Request for Comment #27

In GIPS 2010, compliant presentations for private equity composites and closed-end real estate funds are required to include since-inception internal rates of return (now renamed money-weighted returns) through each annual period end. For example, a private equity composite that has been in existence for four years would present four since-inception money-weighted returns. We propose to instead require firms to present money-weighted returns for only one period: from the pooled fund's inception through the most recent annual period end. Also, investors in a pooled fund will be impacted by all fees and costs incurred by the fund. Therefore, we require firms to present pooled fund returns that are net of all fees and expenses.

a. Do you agree that firms should be required to present returns for only one period—from inception through the most recent annual period end?

   See Comment #17: No. The abbreviated presentation of the money-weighted returns (i.e. IRR) results in a considerable loss of information, as performance volatility is not shown over time. Period returns, whether overlapping or non-overlapping, are always of interest in performance analysis.

b. Do you agree the firms should be required to present pooled fund returns that are net of all fees and expenses?

   Yes, an obligation is very useful for pooled fund returns, since a net-of-all-fees calculation can be regarded as a standard case/reference case, thus ensuring maximum comparability.

Request for Comment #28

Subscription lines of credit are being used by more firms and for longer periods. These lines of credit can have a significant effect on returns. As has been widely discussed in the industry, there has also been a lack of consistency in return calculations when lines of credit are used. For comparability and transparency, we propose requiring firms to present returns both with and without the subscription line of credit activity, whenever any line of credit has been used. A return with the line of credit reflects line of credit activity as an external cash flow.

   See Comment #20.

a. Do you agree that firms should be required to present returns both with and without the subscription line of credit activity?

   Yes, this is the only way to show whether the use of the credit line had a positive result and is therefore essential for quality assessment.

   From a performance analysis point of view, this provides valuable indications of timing quality.

b. Should we be describing returns with and without the subscription line of credit differently? For example, some firms refer to these returns as levered and unlevered returns.

   Yes. A clear differentiation is required.

c. Do you agree that firms should be required to treat all lines of credit the same and not differentiate between short-term and long-term lines of credit?

   Yes, the financing structure should be irrelevant for reporting purposes (consistency, comparability). Should a particular financing structure have been advantageous, this will be reflected in the performance and no further differentiation will be required. A note on the duration of liabilities is worth considering from a risk perspective.

d. We propose requiring returns with and without the subscription line of credit activity only when money-weighted returns are presented. There is no comparable requirement when time-weighted returns are presented. Do you agree that this is the correct approach?

   Yes (with limitations). Timing effects from leverage are likely to be more pronounced in illiquid assets in the context of MWR. Nevertheless, the basic question of isolating timing effects is independent of the performance measure used (TWR/MWR). In this respect, in a TWR environment, at least a recommendation should be made on a different return presentation (with and without the subscription line of credit activity).

Request for Comment #29

In GIPS 2010, compliant presentations for private equity composites and closed-end real estate funds are required to include certain information about committed capital, distributions, and related multiples as of each annual period end. For example, a private equity composite that has been in existence for four years would present four series of information about committed capital, distributions, and related multiples. Consistent with the proposed change to require firms to present only one return—the since-inception money-weighted return through the most recent annual period end—we require information about committed capital, distributions, and related multiples as of the most recent annual period end.

a. Do you agree that firms should be required to present information about committed capital, distributions, and related multiples only as of the most recent annual period end?

No. We have the same performance measurement and conceptual concerns as in Comment #19, #21.

Request for Comment #30

We frequently hear that too many disclosures are required in GIPS reports. We have introduced sunset provisions where possible—that is, although all disclosures must be included for at least one year, some disclosures may subsequently be deleted once the firm determines that they are no longer relevant to interpreting the performance track record.

a. Do you agree that firms should be allowed to delete some disclosures once the firm determines that they are no longer relevant to interpreting the performance track record?

   See Comment #17, #23, #26.

b. Did we correctly identify the disclosures that should be allowed to be deleted once the firm determines that they are no longer relevant to interpreting the performance track record?

   The question should be further specified.

Request for Comment #31

Currently, the GIPS standards are silent on how quickly asset owners must update GIPS-compliant presentations. (For Asset Owners, the term compliant presentation has been replaced with GIPS Asset Owner Report.) Although we have not seen this happen with asset owners, some firms present returns that are several years old, often providing as the rationale the fact that they are waiting for the verification to be completed before updating the reports. We believe that firms and asset owners should be required to update GIPS reports on a timely basis, even if the verification is not complete.

a. Do you agree that asset owners should be required to update GIPS reports within a specified time period?

   Yes

b. Do you agree that six months is the appropriate amount of time?

   No. Asset Owners often hold illiquid assets, which themselves are valued with a significant delay. In addition, asset owners depend on third parties that deliver valuations for investments held by the asset owner (e.g. investment funds or private equity). Proposal: update of GIPS reports within 12 months at the latest.

Request for Comment #32

Consistent with the Guidance Statement on the Application of the GIPS Standards to Asset Owners, if an asset owner has the authority to compete for business by marketing to prospective clients, as is done by firms, the part of the asset owner that is competing for assets must be defined as a separate firm. This separate firm must follow all sections of the GIPS standards related to firms and all applicable requirements.

a. Do you agree that this concept should continue?

   Yes, as long as it is ensured that only those parts of the asset owner are included in the firm which are used for marketing to current or prospective clients. An extension to those parts of the firm held for third parties and - due to this fact - liable to account towards those third parties, but not part of any competition with other asset owners, may be included; if this is the case, this fact and the volume of these assets under management must be revealed.

Request for Comment #33

Asset owners may choose to present time-weighted returns or money-weighted returns for additional composites.

a. Do you agree that asset owners should be allowed to choose which returns are presented for the optional additional composites?

   Yes, it should be allowed to decide composite by composite which returns are presented. The chosen return calculation methodology should mandatorily be applied in a consistent manner for each composite.

Request for Comment #34

Currently, all returns must be calculated after the deduction of actual trading expenses incurred during the period, and estimated trading expenses are not allowed. When the GIPS standards were originally created, trading expenses were generally higher than they are now and were more standardized. Today, trading expenses can be charged in a variety of ways and may not be under an asset owner's control. Indeed, in some instances, asset owners may not have the ability to determine how or where trading expenses are charged. We have decided to introduce allowing estimated transaction costs (the term that replaces trading costs) if returns calculated using estimated transaction costs are equal to or lower than those that would have been calculated using actual transaction costs.

a. Do you agree that estimated transaction costs should be allowed?

   No, never.

b. Do you believe that asset owners will have the ability to determine if estimated transaction costs are more conservative than actual transaction costs?

   No. This would have to be documented and carried through effectively. Therefore further requirements would be needed.

Request for Comment #35

The Guidance Statement on Alternative Investment Strategies and Structures provides guidance for asset owners that manage alternative strategies if the asset owner places reliance on valuations that are received with a significant time lag (e.g., for portfolios or funds invested in third-party hedge funds). There is some concern that asset owners may adopt the use of preliminary, estimated values for liquid strategies where more appropriate valuations are available.

a. Should this guidance be limited to certain types of assets, such as investments in third-party private market investment funds?

   Yes. Only for assets, which are not quoted at an exchange.

b. Should this guidance instead continue to be included in guidance rather than included as a provision?

   No. This should be a provision in GIPS 2020.

Request for Comment #36

When calculating since-inception internal rates of returns (now referred to as money-weighted returns), currently private equity portfolios are required to use daily external cash flows for periods beginning on or after 1 January 2011. Real estate closed-end funds are required to use quarterly or more frequent external cash flows. It is proposed that all portfolios and pooled funds, including private equity, would be required to use daily cash flows when calculating money-weighted returns for periods beginning on or after 1 January 2020, and quarterly external cash flows for periods prior to 1 January 2020.

a. Do you agree that asset owners should be required to use daily external cash flows as of 1 January 2020 when calculating money-weighted returns?

   No. The required frequency of cash flows should be determined subject to the liquidity of the assets the asset owner invests in: While portfolios only investing in liquid assets should be required to use daily external cash flows, portfolios with investment in illiquid assets should be required to use monthly or more frequent external cash flows. However, even in these cases a daily consideration of cash-flows should be recommended.

b. Is the change to lessen the required frequency for private equity for periods prior to 1 January 2020 appropriate?

   Yes. The information about the change should be included in the presentation. When calculating internal rates of return, cash flows as of the beginning of the investment are necessary.

Request for Comment #37

Currently, real estate investments are required to receive an external valuation at least once every 12 months, with an exception for when clients opt out of the external valuation. In that case, asset owners must obtain an external valuation at least once every 36 months. We expanded the notion of external valuation beyond the current requirement for real estate to private market investments but broadened the type of valuations that are allowed. Private market investments include real estate, infrastructure, timberland, private equity, and similar investments that are illiquid and not traded on an exchange. These assets must have an external valuation, valuation review, or be subject to a financial statement audit at least once every 12 months.

a. Do you agree that private market investments should be required to have an external valuation, valuation review, or be subject to a financial statement audit?

   Yes, but a financial statement audit is sufficient only if the accounting principles require fair value measurement. This should be included as a mandatory prerequisite.

b. Is once every 12 months the appropriate valuation frequency given the expanded types of valuation that are allowed?

   No. We agree that for private equity every 12 months is the appropriate valuation frequency. However for other illiquid assets, like infrastructure and timber, such a frequency might not be needed. From our point of view, for those assets it should be required to check every 12 months the requirement for a new valuation.

c. Are there any other types of valuation that should also be allowed?

   No. A binding offer of an independent third party might be appropriate as well. However, this will be a very rare case in praxis.

Request for Comment #38

Asset owners will be required to present returns that include side pockets but will not be required to present returns that do not include side pockets.

a. Do you agree with this approach?

   Yes.

Request for Comment #39

Asset owners are recommended to use gross-of-fees returns when calculating risk measures.

a. Do you believe that asset owners should instead be recommended to use net-of-fees returns to calculate risk measures when only net-of-fees returns are presented in a GIPS Asset Owner Report?

   Yes. The calculation of return and risk should be consistent.

b. Would your answer differ when there are performance-based fees or carried interest?

   No.

Request for Comment #40

In GIPS 2010, asset owners are required to present income and capital component returns for real estate composites. When calculating these component returns, asset owners are required to calculate each component return separately. As part of the move to eliminate asset class provisions, we have deleted these real estate-specific requirements and have expanded the concept of component returns to all composites and total funds. Asset owners would be allowed to derive one of the component returns as the difference between the total return and one of the calculated component returns. We acknowledge that component returns are widely used in some markets but not in others. We therefore are recommending component returns to be included in GIPS Asset Owner Reports that Include time-weighted returns, and we expect that asset owners will present component returns where it is customary for a specific market to do so.

a. Do you agree with eliminating the requirement for real estate portfolios to present component returns?

   Yes.

b. Do you agree with eliminating the requirement for real estate portfolios to separately calculate component returns?

   Yes.

c. Do you agree that component returns should be recommended for all total funds and composites when time-weighted returns are presented?

   No. In the multi-period case, it is difficult to calculate separate component returns. This would necessitate further guidance.

Request for Comment #41

We frequently hear that too many disclosures are required in GIPS reports. We have introduced sunset provisions where possible—that is, although all disclosures must be included for at least one year, some disclosures may subsequently be deleted once the asset owner determines that they are no longer relevant to interpreting the performance track record.

a. Do you agree that asset owners should be allowed to delete some disclosures once the asset owner determines that they are no longer relevant to interpreting the performance track record?

   No. It shouldn't be at the discretion of the asset owner to determine which disclosures are no longer relevant to interpreting the performance track record.

b. Did we correctly identify the disclosures that should be allowed to be deleted once the asset owner determines that they are no longer relevant to interpreting the performance track record?

   No. It is not clear to us which disclosures you are referring to. E.g. disclosures 11.C. and 11.D. shouldn't be allowed to be deleted. We consider most information to be given in a GIPS presentation to be important.

Request for Comment #42

Asset owners may choose to present money-weighted returns for additional composites in a GIPS Asset Owner Report. In GIPS 2010, compliant presentations for private equity composites and closed-end real estate funds are required to include since-inception internal rates of return (now renamed money weighted returns) through each annual period end. For example, a private equity composite that has been in existence for four years would present four since-inception money-weighted returns. We propose to instead require asset owners to present money-weighted returns for only one period: from the composite's inception through the most recent annual period end. If the asset owner does not have records to support this track record, however, the asset owner must present the annualized money-weighted return for the longest period for which the asset owner has such records, through the most recent annual period end. This is to acknowledge that asset owners have very long histories and some of the earlier records may not be sufficient to support the entire track record.

a. Do you agree that asset owners should be required to present only one return: the since- inception money-weighted return through the most recent annual period end?

No. For each asset owner the return data history is available. Of course, an asset owner should be required to present since-inception money-weighted return through the most recent annual period end. However, we don't see any reason why only the presentation of this return should be allowed. Adding internal rates for other time periods in the GIPS report would make the performance development over time more transparent.

b. When asset owners do not have records to support the entire track record, do you agree that asset owners should instead be required to present the money-weighted return for the longest period for which the asset owner has such records?

No. This would contradict the requirements of fair representation and full disclosure. From our point of view, a GIPS-complaint asset owner must have all data available to present the entire track record.

Request for Comment #43

In GIPS 2010, compliant presentations for private equity composites and closed-end real estate funds are required to include certain information about committed capital, distributions, and related multiples as of each annual period end. For example, a private equity composite that has been in existence for four years would present four series of information about committed capital, distributions, and related multiples. Consistent with the proposed change to require asset owners to present only one return—the since-inception money-weighted return through the most recent annual period end or, in the absence of records, the money-weighted returns for the longest period for which the records are available through the most recent annual period end—we require information about committed capital, distributions, and related multiples as of the most recent annual period end.

a. Do you agree that asset owners should be required to present information about committed capital, distributions, and related multiples only as of the most recent annual period end?

Yes. Firms and asset owners should be required to include risk measures in all GIPS advertisements.

Request for Comment #44

We frequently hear that too many disclosures are required in GIPS reports. We have introduced sunset provisions where possible—that is, although all disclosures must be included for at least one year, some disclosures may subsequently be deleted once the asset owner determines that they are no longer relevant to interpreting the performance track record.

a. Do you agree that asset owners should be allowed to delete some disclosures once the asset owner determines that they are no longer relevant to interpreting the performance track record?

No. It shouldn't be at the discretion of the asset owner to determine which disclosures are no longer relevant to interpreting the performance track record. The addressee of the report should himself be able to determine which information ist not relevant for him.

b. Did we correctly identify the disclosures that should be allowed to be deleted once the asset owner determines that they are no longer relevant to interpreting the performance track record?

No. It is not clear to us which disclosures you are referring to. E.g. disclosures 12.C. and 12.D. shouldn't be allowed to be deleted. We consider most information to be given in a GIPS presentation to be important.

Request for Comment #45

Except for broad distribution pooled funds, firms and asset owners are not required to include risk measures, either quantitative or qualitative, in GIPS advertisements that include performance.

a. Should firms and asset owners be required or recommended to include risk measures in all GIPS advertisements?

Yes. Firms and asset owners should be required to include risk measures in all GIPS advertisements.

Request for Comment #46

Do you agree that firms should be required to include benchmark returns in a GIPS Advertisement for a broad distribution pooled fund that includes performance?

No. Although it is a fundamental finding of the theory on strategic asset allocation that there should be a benchmark for every investment concept, there are more and more investment concepts with multiple goals or goals that cannot be represented by a benchmark in the conventional sense.

For this reason, the restriction "unless the firm determines there is no appropriate benchmark" is justified.

Request for Comment #47

The term "sales charges and loads" is defined as the costs associated with buying or selling shares of a pooled fund.

a. Is this a well-understood term, or is there a better term?

The term "sales charges and loads" is both restrictive and redundant. Confusing expressions such as "to charge a load" can be found in everyday language, which illustrates the need for clarification.

A better term to avoid redundancy would be the sole term "loads", which refers to both the time of purchase and the time of sale. Under "loads" both front-end and back-end costs are associated.

* * *

ADDITIONAL COMMENTS

Regarding 11.B.3

The ASSET OWNER SHOULD present the following items:

a. Cumulative returns of the TOTAL FUND or COMPOSITE and the BENCHMARK for all periods.
b. Equal-weighted COMPOSITE returns.
c. Quarterly and/or monthly returns.
d. Annualized TOTAL FUND or COMPOSITE and BENCHMARK returns for periods longer than 12 months.

Equal-weighted composite returns are not very meaningful from an analytical point of view.

Regarding 11.B.6

For all periods for which an annualized return of the TOTAL FUND or COMPOSITE and the BENCHMARK are presented, the ASSET OWNER SHOULD present the corresponding annualized EX POST STANDARD DEVIATION (using monthly returns) of the TOTAL FUND or COMPOSITE and the BENCHMARK.

Ex post standard deviation figures for periods less than 36 months are not meaningful.

Therefore we would propose to change the wording such that it is aligned to the wording for 4.B.4 and 6.B.4: “For all periods greater than three years for which an annualized return of the TOTAL FUND or COMPOSITE and the BENCHMARK are presented, the ASSET OWNER SHOULD present the corresponding annualized EX POST STANDARD DEVIATION (using monthly returns) of the TOTAL FUND or COMPOSITE and the BENCHMARK.”

Regarding 13.B.1

FIRMS and ASSET OWNERS MUST disclose the GIPS Advertising Guidelines compliance statement: "[Insert name of FIRM or ASSET OWNER] claims compliance with the Global Investment Performance Standards (GIPS®). GIPS® is a trademark owned by CFA Institute."

According to the definition given on page 98, a GIPS ADVERTISEMENT is an advertisement by a GIPS-compliant FIRM or ASSET OWNER that adheres to the REQUIREMENTS of the GIPS Advertising Guidelines. Therefore we would also expect a reference to this guideline in this statement.

Regarding the glossary:

a. "Sales Charges and Loads (New Term)":

With reference to Comment #47 we have the following suggestion for improvement:

"LOADS: The costs associated with buying or selling shares of POOLED FUND. It must include all commissions and sales charges at front-end and back-end (deferred load) which are not a component of the POOLED FUND's expenses or level-loads."

b. Definition of "Expenses":

Why is there no definition of Expenses, in particular including a distinction to Trading Expenses? Why is the term Expense Ratio defined without having defined Expenses?

c. "Expense ratio"

Why does it say "SHOULD NOT reflect TRANSACTION COSTS" and not "MUST NOT reflect TRANSACTION COSTS"?

d. "Asset Owner"

"An entity that manages investments, directly and/or through the use of EXTERNAL MANAGERS, on behalf of participants, beneficiaries, or the organization itself. These entities include, but are not limited to, public and private pension funds, endowments, foundations, family offices, provident funds, insurers and reinsurers, sovereign wealth funds, and fiduciaries. ASSET OWNERS MUST have discretion over TOTAL ASSET OWNERS ASSETS, either by managing assets directly or by having the discretion to hire and fire EXTERNAL MANAGERS."

This definition is not sufficient. Further concretization is needed. In particular, we miss a further differentiation between asset owners with no prospective clients versus asset owners with prospective clients. At least parts of the definitions one-to-one, one-to-many and one-to-none from GIPS 2020 Consultation Paper should be added.

* * *

Yours sincerely

Signed Rudolf Siebel	Signed Peter Jakobus	Signed Gabriele Boeger
BVI	CFA Society Germany	DVFA