The Securities Analysts Association of Japan

To: CFA Institute
Global Investment Performance Standards
Re: Exposure Draft of GIPS Guidance Statement on Risk
Date: 26 September 2017

Dear Sir/Madam,

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

Question 1) Do you agree with the removal of provision 5.A.2.b, which reads "For periods ending on or after 1 January 2011, FIRMS MUST present, as of each annual period end: b. An additional three-year EX-POST risk measure for the BENCHMARK (if available and appropriate) and the COMPOSITE, if the FIRM determines that the three-year annualized EX-POST STANDARD DEVIATION is not relevant or appropriate. The PERIODICITY of the COMPOSITE and the BENCHMARK MUST be identical when calculating the EX-POST risk measure."?

We agree with the proposed removal of 5.A.2.b.

Question 2) Do you agree with the new requirement to disclose whether gross or net returns for the composite were used in the calculation of the three-year annualized ex-post standard deviation?

We do not agree with the proposed new requirement. Firms should calculate and present the three-year annualized ex-post standard deviation using the returns presented in the composite: i.e. using gross returns when gross returns are presented and net returns when net returns are presented (see comments on Question 3). In this case, there is no need to disclose whether gross or net returns for the composite were used in the calculation of the three-year annualized ex-post standard deviation.

When calculating the three-year annualized ex-post standard deviation using net returns, further consideration is necessary. In general, there would not be meaningful difference in the three-year annualized ex-post standard deviation between using gross returns and net returns, for instance if the management fee is accrued daily/monthly in the calculation of net returns (the provision 1.B.4 of the current GIPS standards does not require to accrue investment management fees). However, the two (standard deviation using gross returns vs net returns) could be different subject to the method to reduce fees (i.e. model fees or actual fees on accrual/cash basis) to arrive at net returns. We understand that the objective of presenting the three-year annualized ex-post standard deviation is to provide prospective clients with a stability measure of the composite strategy and/or the firm's implementation of the strategy. From this point of views, we think that the calculation of the three-year annualized ex-post standard deviation using gross returns should be presented even if net returns are presented in the composite, rather than using net returns which would lead to different results in the standard deviation calculation depending on the method used to reduce fees.

Question 3) Should firms presenting gross (net) returns be required to use gross (net) returns in the calculation of the three-year annualized ex-post standard deviation?

We basically agree. However, we think that the calculation of the three-year annualized ex-post standard deviation using gross returns should be presented even if net returns are presented in the composite, rather than using net returns which would lead to different results in the standard deviation calculation depending on the method used to reduce fees (see comment on Question 2 above).

Question 4) If both gross and net returns are presented, should firms be required to present the three-year annualized ex-post standard deviation for each type of return presented?

We do not agree. Both are not necessary to be presented. Firms should present only the 3 year annualized ex-post standard deviation using gross returns (see comment on Questions 2 above).

Question 5) Do you agree that when a firm includes an additional composite and benchmark ex-post risk measure that the periodicity of the composite and benchmark returns must be identical?

We agree with the proposal.

Question 6) Do you agree with the requirement to disclose a description of the additional risk measure presented and how the measure is relevant to the strategy?

We agree. Firms should be required to disclose the intent and nature of additional risk measure presented to avoid any misunderstanding and confusion of prospective clients.

Question 7) Are there additional, commonly used ex-post risk measures that provide helpful information to prospective clients that should be included as examples?

We think that the four measures listed in the exposure draft are all commonly used by many firms and are useful risk measures. We cannot think of any other ex-post risk measures to be added.

We suggest that calculation formula for each example be shown in the Guidance Statement to standardize clients' understanding and educate clients and investment managers.

Question 8) Do you agree with the requirement that if a risk measure is presented that uses a risk-free rate, the risk-free rate used must be included in the description of the measure?

We agree with the proposal.

Question 9) Is the description of risks that could have significant influence on returns adequate, or are there additional risks that should be included?

We think that the exposure draft covers the description of risks that could have significant influence on returns adequately and appropriately. There would be none to be included.

Sincerely yours,

Yoh Kuwabara
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Investment Performance Standards Committee of SAAJ

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The Securities Analysts Association of Japan