



The Securities Analysts Association of Japan

To: CFA Institute
Global Investment Performance Standards
Re: Exposure Draft of the Revised Guidance Statement on the Application of the GIPS
Standards to Asset Owners
Date: October 27, 2016

Dear Sir/Madam,

Thank you for the invitation to comment on the exposure draft of the revised Guidance Statement on the Application of the GIPS Standards to Asset Owners.

The Securities Analysts Association of Japan, the country sponsor of the GIPS standards in Japan, is pleased to submit comments as below. We also briefly explain the current situation with respect to asset owners (public and private pension funds) in Japan.

Current situation

In Japan a type of MWR is presented by most public and private pension funds, while some large public and/or private pension funds present TWR in addition to MWR and gross-of-fee returns are usually presented, although the Guidance Statement requires asset owners to present TWR and “total fund net-of-fee return”. In addition, there have not yet been real estate and private equity management firms which claim compliance with the GIPS standards (public and private pension funds invest in funds managed by external real estate and private equity managers). Such circumstances may affect motivation of asset owners to claim compliance with the GIPS standards. Currently there are no asset owners which claim compliance with the GIPS standards in Japan and it would be difficult for smaller pension funds (with limited personnel and financial resources to cover the compliance cost) to be in compliance with the GIPS standards. However, we think that the Guidance Statement would contribute to improvement of investment performance presentations of asset owners.

Comments on the Questions

Question1: Do you agree or disagree that this Guidance Statement should apply to asset owners that manage other related asset owners’ assets so as to gain efficiencies and cost savings (e.g., a state employee pension plan that also manages employee pension plans of local municipalities within that state)? Why?

We agree. We understand that the stated situation is already taking place in our country among public pension plans, which we believe warrants the need for asset owners managing other asset owner’s assets to claim compliance with the GIPS standards for mutual benefit of both sides of the relationship. By the same token, investment management firms established exclusively for the management of pension assets or other assets of a particular group of companies should also consider claiming compliance with the GIPS standards.

Question 2: Do you agree or disagree with allowing asset owners that do not compete for business to initially attain compliance by presenting a 1-year compliant track record and building up to the required 10 years? Why?

We agree. Main reason for asset owners to comply with the GIPS standards would be to demonstrate to relevant parties (such as legislative bodies, oversight boards, plan participants, and the general public) their adherence to best practices for performance calculation and presentation as highlighted in page 2 of the Guidance Statement. Asset owners applying this Guidance Statement do not compete for business. Also, given the complex nature of their total fund, it would be very laborious, cumbersome work for asset owners to retroactively apply the Guidance to determine fair value of the assets and come out with 5-year track record initially.

Question 3: Do you agree or disagree with the fact that there is no minimum date that by which all asset owners' track records must comply with the GIPS standards and this Guidance Statement?

We agree. Given that asset owners applying this Guidance Statement do not compete for business, comparability of track record with other compliant or non-compliant entities (investment managers and/or asset owners) is deemed less important for them. We believe asset owners should be able to start to claim compliance once they present 1-year compliant track record.

While this Guidance Statement allows only compliant performance to be presented in a compliant presentation, asset owners may want to include non-GIPS compliant performance for periods prior to claiming compliance as "Supplemental Information" in a compliant presentation. The Guidance Statement should clarify whether or not asset owners are allowed to do so. We believe it is possible if asset owners follow the Guidance Statement on the Use of Supplemental Information and disclose how non-GIPS compliant performance for those periods differs from the GIPS compliant performance.

See also comments on Question 8 below with respect to the proposed requirement of disclosure of the difference if asset owners already claimed compliance with the GIPS standards prior to 1 January 2015.

Question 4: Do you agree or disagree with the revised valuation guidance regarding real estate? Why?

We agree. The proposed approach is reasonable and consistent with the Guidance Statement on Alternative Investment Strategies and Structures.

This Guidance Statement states that, assuming carve-out requirements are met, an asset owner may want to create a real estate asset class composite, but whole Section 6 provisions apply. Accordingly, we believe that if an asset owner creates a real estate composite, it must be defined according to investment mandate, objective and style (and vintage year for closed-end real estate fund composite), the aforementioned statement sounds like as if one catch-all composite for all real estate assets within the total fund is permitted once carve-out requirements are met for those assets. How is it different from real estate segment returns of the total fund? Please clarify more on this.

Question 5: Do you agree or disagree with the revised valuation guidance regarding private equity? Why?

We agree with the proposed approach for valuation and fair value determination of private equity assets in the total fund.

According to this Guidance Statement, when an asset owner chooses to present a private equity

composite assuming carve-out requirements are met, whole Section 7 provisions apply and therefore an asset owner must create composites according to investment mandate, objective, or style (and vintage year for primary funds). However, given the nature of asset owners being in most cases investor to, not manager of, real estate or private equity funds, it sounds like as if a catch-all composite for all private equity assets in the total fund is permitted. Please clarify more on this. We believe that a creation of private equity composite, in addition to the total fund composite, would be appropriate only if the asset owner directly manages the private equity assets on a discretionary basis. Mere aggregation of assets invested in limited partnership cannot be a composite in anyway. But, a private equity segment return without cash can be presented as supplemental information to the total fund composite presentation.

Question 6: Do you agree or disagree with allowing asset owners to choose whether to present compliant presentations using time-weighted returns or internal rates of return?

First of all, this private equity section is confusing: while it clearly states that “internal rates of return are required for private equity composites”, the next sentence states that “asset owners may choose to present a compliant presentation with time-weighted rate of returns for a private equity composite.” For the total fund composite, this Guidance states that MWR may be presented in addition to TWR when deemed appropriate. Similarly, although we agree that TWR can be presented for private equity composites, the expression of “may choose to present” might be a problem.

We think asset owners must present SI-IRR for their private equity composite and should be allowed to present TWR in addition to SI-IRR when deemed appropriate. If asset owner may choose to present a compliant presentation with TWR for a private equity composite, we anticipate that the results would be virtually identical to a private equity segment of the total fund, not a private equity composite defined according to investment mandate, objective or style (and vintage year for primary funds). However, segment return should be allowed to be included in a compliant presentation as supplemental information. We need more clarity on this point.

Question 7: Do you agree or disagree with the recommendation to apply this Guidance Statement retroactively? Do you think it should instead be a requirement? Why?

We presume that presenting a long historical track record is not a motive for an asset owner to opt for claiming compliance with the GIPS standards. They do not compete for business. Accordingly, we think retroactive application of this Guidance Statement should not be required nor recommended.

Question 8: Do you agree or disagree with the requirement to disclose if returns presented prior to 1 January 2015 differ from those that would have been calculated in accordance with the requirements of this Guidance Statement and its prior version? Why?

As this Guidance Statement allows only compliant returns are presented in a compliant presentation, we understand that those returns in question are compliant, and calculated and presented in accordance with Chapter 2, Sections 0 through 5, of the GIPS standards. Then, we disagree with the proposed requirement because benefit from the required disclosure is minimal and it virtually requires asset owners to calculate past track record retroactively in accordance with both versions of the Guidance Statement. There are precedents including one that the GIPS 2005 edition did not require firms which claimed compliance with CVGs (Country Version of GIPS) to make such disclosure.

Should there be some disclosure, we propose instead disclosure of how the valuation and/or return calculation policies and procedures for periods prior to 1 January 2015 are different from those required in the two versions of the Guidance Statement.

Other Comments

- 4.A.3 (disclosure of composite description)

The explanatory paragraph for asset owners (“the composite description would be expected to include the followings”) is confusing because what is required/recommended information or additional information is not clear. Is “actuarial rate of return or spending policy” (which is included in the sample presentations as well) additional information as defined in the GIPS standards? The paragraph should clarify this point.

- While it is clearly stated that, for the purpose of this Guidance Statement, the terms “asset owner” and “firm” are used interchangeably (p3), we think “asset owner” is more appropriate than “firm” in some cases. (E.g., 6. Real Estate on page 23, and 7. Private Equity on page 24).

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