

To: CFA Institute  
Global Investment Performance Standards  
Re: Exposure Draft of the Revised Guidance Statement on the Use of Supplemental Information  
Date: 28 February 2017

Dear Sir/Madam,

Thank you for the invitation to comment on the exposure draft of the revised Guidance Statement on the Use of Supplemental Information.

The Securities Analysts Association of Japan, the country sponsor of the GIPS standards in Japan, is pleased to submit comments as below.

### **Comments on the Questions**

***Question1): Should theoretical performance not based on assets managed by the firm and not related to the respective composite be allowed to be labeled as supplemental information and included in a compliant presentation?***

We do not agree. We support the definition of supplemental information. It is clear from the definition that theoretical performance not based on assets managed by the firm and not related to the respective composite does not qualify as being supplemental to a compliant presentation of any existing composite and thus should not be allowed to be labeled as supplemental information and included in a compliant presentation.

***Question 2): Do the preceding four items accurately reflect misleading information? Should other examples of misleading information be included?***

While the four examples are fine with us, some examples on comparison with an inappropriate benchmark should be given for item 3.

Even in the case where a prospective or existing client requests firms to present, firms must not present any performance or performance-related information that is false or misleading (GIPS provision 0.A.3). Thus we propose that the 3<sup>rd</sup> paragraph on page 4 should be revised as follows:

“This Guidance Statement does not prohibit firms from preparing and presenting information according to specific requests from clients or prospective clients. Firms may provide any existing or prospective client with any performance and/or performance-related information if it is requested as long as it is not false or misleading.”

***Question 3): Do you agree that firms should not label information as supplemental information if it is presented outside of a compliant presentation?***

We agree. From the definition of supplemental information, any performance or performance-related information should be required to be labeled as supplemental only when it conforms to this Guidance Statement *and* is included in a compliant presentation. Firms *should not* label information as supplemental if it is presented outside of a compliant presentation.

However, we do not agree to make it a requirement, as marketing documents and GIPS compliant composites would be controlled differently by different people within firms and we believe that a marketing document is exempted from the GIPS provisions (except for GIPS provision 0.A.3) if a GIPS compliant

presentation is not included in the marketing document.

**Question 4): If information that would be supplemental information if it were in a compliant presentation is presented outside of a compliant presentation, should firms be required to disclose how to obtain a compliant presentation?**

We do not agree. If the information is presented outside of a GIPS compliant presentation, the disclosure should not be a requirement, given the very diverse nature of marketing documents.

**Question 5): Do you agree that firms should be required to direct the reader to the compliant presentation if the compliant presentation is included within a marketing document (e.g., pitch book)?**

We do not agree to make it a requirement. Firms have discretion as to whether or not to include a GIPS compliant presentation in a marketing document and may adopt an alternative way such as simultaneously presenting both a compliant presentation and a marketing document which does not include a compliant presentation.

We rather propose that, if a GIPS compliant presentation is presented in a marketing document, the compliant presentation should be clearly identified as such and should not be presented in fragments (supplemental information should be presented as part of the compliant presentation) in the marketing document.

**Question 6): Do you believe that the prohibition against presenting any false or misleading performance-related information is strong enough to deter firms from doing so, or should this prohibition be explained more?**

It is not possible to list up all the cases where false or misleading information is presented. We believe firms are required to judge by themselves whether certain performance information is false or misleading based on all applicable laws and regulations and the overarching GIPS principle of “fair representation and full disclosure”. As for the supplemental information, four examples listed upfront of this Guidance Statement are deemed sufficient. See also comments on Question 2): some examples on comparison with an inappropriate benchmark should be given for item 3.

**Question 7): Do you agree with the proposed treatment of theoretical performance within supplemental information? Why or why not?**

We agree. The GIPS standards are best practices for calculating and presenting investment performance that is recorded on actual assets managed by the firm. This Guidance Statement endeavors to identify a possibility where certain theoretical performance information could be presented as supplemental information in a compliant presentation, and we agree with what is proposed.

**Question 8): Do you agree with the proposed disclosures of theoretical performance? Do you believe any disclosures should be added or removed?**

We agree with the four proposed disclosures as a requirement. We do not think any other disclosures should be required for theoretical performance.

### **Other Comments**

- Original Adoption Date/Initial Effective Date (cover page)

“9/28/2010” and “1/1/2011” do not look correct as we just see 1/1/2004 as initial effective date from the archives.

- Pure gross-of-fees returns ([page 7](#) and [page 10](#))

We understand that presenting pure gross-of-fees returns are only allowed for warp-fee/SMA composites. Can firms present them as supplemental information in a compliant presentation for all other composites as well?

- Currency Conversions ([page 8](#))

If a firm chooses to present a composite in a different currency, the firm should be required to disclose that all the required information and additional information (and also the supplemental information if converted) have been converted in a different currency from the currency used in the original composite, as well as the method used to convert the information to a different currency, not to mislead existing and prospective clients.

- New Investment Strategies ([page 10](#))

In the 2<sup>nd</sup> paragraph, it is stated that the firm may present theoretical balanced performance. In this case, should the firm present five years of annual investment performance if there is such record for five years for the equity composite and the fixed-income composite?

In the 3<sup>rd</sup> paragraph, at the last part, is the word “If possible” necessary because the firms are required to include the disclosures?

- Verification and Performance Examination ([page 11](#))

It is stated that supplemental information is not subject to verification under the GIPS standards. However, the GIPS verification procedures require a review and testing of the firm’s policies and procedures for establishing and maintaining compliance with all the applicable requirements and adopted recommendations of the GIPS standards. As this Guidance Statement requires firms to establish policies and procedures for presenting supplemental information, it seems that supplemental information is subject to verification to this extent. It should be clarified.

- Effective Date ([page 11](#))

Given the nature of this Guidance Statement being a guide to present certain type of performance information in and/or outside of a compliant presentation, we understand that the effective date of 1 January 2018 means that firms are required to present (deliver), rather than prepare, supplemental information in and/or outside of a compliant presentation in compliance with this Guidance Statement on and after 1 January 2018. We think this should be clarified.

Furthermore, full implementation of this Guidance Statement may take time as firms are required to review and revise their marketing practices if necessary. We are afraid 1 January 2018 effective date might be too close.

The Securities Analysts Association of Japan