



The Securities Analysts Association of Japan

To: CFA Institute
Global Investment Performance Standards
Re: Guidance Statement on Broadly Distributed Pooled Funds
Date: April 29, 2016

Dear Sir/Madam,

Thank you for the invitation to comment on the exposure draft of the Guidance Statement on Broadly Distributed Pooled Funds.

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

In Japan, typical broadly distributed pooled funds are investment trusts that are established and managed by investment trust management companies. The comments below are based on investment trusts in Japan.

Comments on the Questions

Question 1: Does your country or region require sales charges and loads to be included in the calculation of the pooled fund returns?

Sales charges and loads are not included in the calculation of the pooled fund returns in official fund documents and fund-specific marketing materials because sales charges and loads are not included in the calculation of NAV (net asset value) required by laws and regulations in Japan. See also comments on question 6 and 9 below.

Question 2: Are the explanations of the defined terms sufficiently clear?

In order to make the definition of “Official Pooled Fund Document” clearer, the wording “the specific official offering document or documents required to be presented ...” should read “the specific official offering document or documents required by local regulators to be presented ...”.

Question 3: Are there other terms that should be defined?

The definition of the “broadly distributed pooled funds” given in the first section (“Pooled Funds within the Scope of the Guidance Statement on Broadly Distributed Pooled Funds”, page 3) is unclear.

The parentheses (i.e., where there is typically no or minimal contact between the firm managing the pooled fund and prospective pooled fund investors) are not enough to determine what qualifies as “broad distribution”. Also, the word “to more than one investor” may not be applicable as the meaning of “broadly distributed” may vary depending on local markets.

More explicit explanation/definition would be useful.

Question 4: Do the terms themselves clearly indicate the concepts being presented?

As far as the four terms defined in the section “Defined Terms” are concerned, yes. See also comments on question 2 above.

Question 5: Do you agree that all the required items listed above should be required items? Are there any other items that should be required?

As for item 4 (benchmark total returns), in many instances, the benchmark return is not necessarily composed of both capital and income returns. For instance, there are pooled funds in Japan that track Nikkei 225 Index that is a price-only index. It seems quite odd to require those funds to disclose that no appropriate benchmark exists for the fund. We think the GIPS standards should not require presentation of only total-return benchmark in either compliant presentation or pooled fund documents.

As for item 3 “pooled fund returns”, “five years of annual returns” could also be included as a third option (not only “period-to-date returns in addition to five years of annual returns”) to be consistent with first two options “one-, three-, and five-year annualized returns” and “period-to-date returns in addition to one-, three-, and five-year annualized returns”.

Question 6: Do you agree that a pooled fund net/net return should not reflect the deduction of sales charges and loads? Why or why not?

Yes, we agree. Amount and timing of sales charges and loads are dependent on individual subscribers, and therefore the fund performance calculated using these costs cannot be representative of the fund. Use of such out-of-pocket expenses must not be included in the fund return calculation.

Question 7: Should the required items be required in official pooled fund documents unless prohibited by local regulators? Why or why not?

Except for item 4 (benchmark total returns), we believe that the required items are already required by local laws and regulations in many countries and thus support them as required items. As for item 4, our comments on question 5 above should be reflected.

Question 8: Should the required items be required in fund-specific marketing materials created for prospective pooled fund investors? Why or why not?

They should be required in the fund-specific marketing materials as well as official fund document except for the point on the benchmark total returns. See comments on question 5 above.

Question 9: If returns reflect the deduction of sales loads, should firms be required to disclose this deduction?

As in our comments on question 1 above, in Japan returns do not reflect the deduction of sales charges and loads. Sales charges and loads are required to be disclosed in official fund documents and fund-specific marketing materials presented by fund management firms and also distributors.

We believe the deduction of sales loads is not an appropriate way to calculate and present the performance of pooled funds. So, firms should be required not to deduct these expenses in the fund return calculation.

Question 10: Do you agree that including this GIPS pooled fund claim of compliance in the official pooled fund document and in the fund-specific marketing material should be a

recommendation? Why or why not?

There is a concern that it would be difficult for retail investors to understand what the GIPS pooled fund claim of compliance means from the standpoint of the GIPS standards' relation with local laws and regulations. Also, retail investors would not be able to understand the difference between the GIPS pooled fund claim of compliance and the normal claim of compliance required to be disclosed in GIPS compliant presentations.

Thus, the inclusion of the GIPS pooled fund claim of compliance in the official pooled fund document and the fund-specific marketing material should be neither required nor recommended.

Question 11: Do you agree that the offer of a compliant presentation in the official pooled fund document and the fund-specific marketing material should be neither required nor recommended? Why or why not?

Yes, we agree. Performance presented in a compliant presentation may not be identical to what is presented in an official document and marketing materials of the pooled fund. Presenting a GIPS compliant presentation in the official pooled fund document and the fund-specific marketing material would be confusing and misleading.

Question 12: Do you agree that firms should not be required to provide a compliant presentation to prospective pooled fund investors unless requested to do so by a prospective pooled fund investor? Why or why not?

Yes, we agree. Performance presented in a compliant presentation may not be identical to what is presented in an official document and marketing materials of the pooled fund. Requiring or recommending presenting a compliant presentation to prospective pooled fund investors would be misleading.

Question 13: In cases where there are direct interactions between a firm and a prospective pooled fund investor, should it be a requirement or a recommendation (or neither) that a compliant presentation be given to the prospective pooled fund investor?

Even in such a case, providing a compliant presentation should not be required nor recommended, but when specifically requested by the prospective pooled fund investors, the corresponding compliant presentation must be presented.

Other Comments

- **Effective Date**

We understand that official fund documents are regulated by local laws and regulations in many countries. Also, official fund documents and fund-specific marketing materials are usually updated on an annual/semiannual basis reflecting the financial results and/or fund audit for the latest year.

If the final version of the Guidance Statement would require some changes in the official documents and marketing materials, which depends on local markets, it may take time to confirm if any changes do not conflict with current local regulations. Considering such a situation and regular update cycle of the documents, effecting changes as of 1/1/2017 would be burdensome for the GIPS compliant firms managing pooled funds.

Effecting changes upon the first such regular update cycle after 1/1/2017 should be allowed.

- Local laws and regulations (item 2, page 4)

For the purpose of this Guidance Statement, we understand that "local" may have two different meanings: i.e. the domicile of the manager, and the country (countries) where the fund is going to be distributed. We want this clarified in this document.

- Period-to-date return (note 8, page 7)

The end of the annual reporting period is not necessarily "calendar year-end". Thus, "calendar year-end" should read "financial year-end".

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