

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

28 December 2018

Comments on the Exposure Draft of the 2020 GIPS Standards

Dear Sir/Madam,

Thank you for the opportunity to comment on the Exposure Draft of the 2020 GIPS Standards. The Securities Analysts Association of Japan, the Country Sponsor of the GIPS Standards in Japan, is pleased to submit comments as attached.

Sincerely yours,

The Securities Analysts Association of Japan

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?
 - 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.”
- a. With the definition in Glossary, the two terms are easily distinguished and understood without causing confusion. However, we need guidance on how to treat certain type of pooled fund: (1) commingled funds that a firm manages specifically for management of its client portfolios -- they are pooled funds as vehicle but used as an alternative for segregated portfolios for institutional clients with small asset size; (2) master funds in master/feeder structure where a firm manages both master and feeder funds -- they are not sold directly to the general public. In these two cases, it is not the fund but “strategy” that the manager is selling.

Also, in Japan, there is an investment scheme where a fund is privately offered to a limited number of investors such as qualified institutional investors and is typically sold in one-on-one presentations. For instance, private investment trusts for qualified institutional investors (including pension plan sponsors) have been included and maintained in composites by GIPS compliant firms as their “strategies” are sold in one-on-one presentations.

If such funds as above are required to prepare Pooled Fund Report in addition to Composite Report, it would impose substantial burden on firms as the requirements for Pooled Fund Report are different from those for Composite Report in terms of return calculations and presentations as well as disclosures.

Accordingly it needs to be clarified in the GIPS Standards and/or Guidance Statements that a limited distribution pooled fund should be included and maintained in a composite if the strategy of the fund is offered and is not required to prepare Pooled Fund Report in addition to Composite Report.

- b. While the term “pooled funds” is barely used in the investment industry in Japan, as the two terms are explained in Glossary, and if guidance as requested above is provided, we deem the wording currently proposed, “limited distribution pooled fund” and “broad distribution pooled fund”, is acceptable.

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?
 - b. Do you agree that six months is the appropriate amount of time?
- a. We agree that the firms should be required to update GIPS reports within a specified time period based on the principles of fair representation and full disclosure. The alleged rationale for not updating the GIPS reports on a timely basis is not acceptable at all.

- b. We deem that six months is sufficient for firms to complete updating the GIPS reports after each annual period end.

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?
- a. For the prospective pooled fund investors, the list should include only those pooled funds that are available for them to purchase. However, for prospective clients searching for investment strategy, the list including even terminated funds would be of interest (if the pooled funds are included in composites as discussed under #1, the composite including the terminated funds remains on the list of composites accordingly). So, the GIPS standards should require the list of pooled funds to include existing pooled funds only, and require firms to include terminated pooled funds when specifically requested.

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?
- 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?
- a. We agree that a list of limited distribution pooled funds should be required to include only those funds that are available to the specific prospective investor.
- b. We agree with the proposed two-step approach with regard to distribution of the list of broad distribution pooled funds. As maintaining a list of descriptions for limited distribution pooled funds could also be very challenging (there are cases where firms manage large numbers of limited distribution pooled funds), the two-step approach should also be taken for limited distribution pooled funds.

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?
 - 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?
 - 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?
- a. We agree that firms should be allowed to choose, for each composite or pooled fund, if certain criteria are met, whether or not to bring in returns from a prior firm or affiliation to represent the historical performance of the new or acquiring firm.
 - b. We agree that the one-year grace period should apply only to performance at 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. Just for completeness, we propose to clarify that porting history from the prior firm or affiliation is a requirement, but firms are not required to complete doing so within the grace period.
 - c. A break in performance makes it impossible for firms to link performance over the break period. For the purpose of linking past track record of past firm or affiliation to the ongoing results, performance break is a show stopper. Thus we believe that this criteria (there must not be a break in the track record) should be specified within this provision.

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?
 - b. Are the appropriate names used for these additional criteria?
 - 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?
- a. Yes, we believe that the stated additional four criteria are appropriate for determining if MWR may be presented.
 - b. We believe that each criterion is described appropriately.
 - c. We believe that firms should not be required but allowed to choose to present money-weighted returns when the firm controls the cash flows and it meets at least one of the additional criteria, so that firms could have some flexibility to respond to diversified alternative strategies.

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?
 - b. Do you agree that firms should be required to not include committed capital in total firm assets?
- a. We agree that the firms should be required to not include advisory-only assets in total firm assets.
- b. We agree that the firms should be required to not include uncalled committed capital in total firm assets.

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's 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?
 - b. Do you believe that firms will have the ability to determine if estimated transaction costs are more conservative than actual transaction costs?
- 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?
 - d. Should firms be required or recommended to disclose how research costs are reflected in returns?
 - e. Should firms be required or recommended to disclose if research costs are separately charged to clients?
- a. Except for wrap-fee programs, we do not see cases where actual transaction cost cannot be captured by the manager in Japan. However, we understand that situation would happen, and in that situation firms should be allowed to use estimated transaction costs. Guidance should be provided on the estimation methodology to avoid any arbitrary use of estimated transaction costs.
- b. Firm's fiduciary responsibility involves best execution of trades and it would normally require analysis of actual transaction costs by broker-dealer. So, we believe that firms will have the ability to determine if estimated transaction costs are more conservative than actual transaction costs.
- c. No, we do not think that firms should be required or recommended to treat research costs in a specific way as it is premature to indicate a common standard on how research costs should be treated in the GIPS standards.
- d. We believe that firms should be recommended to disclose how research costs are reflected in returns

as arguments vary depending on local markets.

- e. We believe that firms should be recommended to disclose if research costs are separately charged to clients as the regulatory/practical situation vary depending on local markets.

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?
 - b. Should this guidance instead continue to be included in guidance rather than included as a provision?
- a. We believe that this guidance should not be limited to investments in third-party private market investment funds as there are other types of assets such as high-yield bonds for which firms may receive valuations with a time lag.
- b. We believe that this guidance should continue to be included in guidance as alternative strategies are getting diversified further.

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?
 - b. Is the change to lessen the required frequency for private equity for periods prior to 1 January 2020 appropriate?
- a. We agree that firms should be required to use daily external cash flows as of 1 January 2020 when calculating MWR.
- b. Although the proposed change looks downgrading for private equity, the requirement applies equally to all private market investments which is going to be introduced in the GIPS 2020 standards. So, we think that impact on private equity from this change is acceptable.

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 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?
- b. Is once every 12 months the appropriate valuation frequency given the expanded types of valuation that are allowed?
 - c. Are there any other types of valuation that should also be allowed?
- a. We believe that private market investments should ideally be required to have an external valuation, valuation review, or subject to a financial statement audit. However, it is very challenging for firms in Japan to abide by 2.A.45 and 46: there are no qualified valuers/appraisers for assets other than real estate and fair value is not subject to a fund audit. Furthermore, the current accounting principles for private market investment funds are not yet incorporating fair value concept. These are beyond individual manager's capability and the proposed requirements of 2.A.45 and 46 would prevent firms being in compliance with the GIPS standards. So, these provisions should be established as recommendation.
 - b. We believe that valuation frequency of once in every 12 months is appropriate.
 - c. We do not think of anything else.

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?
- a. We agree with the stated approach to require firms to present returns that include side pockets for both composites and pooled funds.

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?
 - b. Would your answer differ when there are performance-based fees or carried interest?
- a. If the requirement of presenting 3-year annualized ex-post standard deviation is to shed light on investment strategy's risk, it should be calculated using gross-of-fees returns. However, if it is to shed light on risk or volatility of acquired return, returns presented in the report should be used to calculate 3-year annualized ex-post risk measure. Unless the GIPS standards specifies type of risk to be reported, we would think that firms should 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.
 - b. 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?
- a. We agree with the proposed change.

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?
 - b. Should firms be required to use a specific method to allocate cash to carve-outs?
 - c. Do you agree that firms should be required to create and maintain a composite that includes only standalone portfolios?
- a. We agree that firms should be allowed to include in composites carve-outs with allocated cash.
- We received a comment from a large firm (which has adopted carve-outs managed with its own cash balance) that the proposed treatment of carve-outs would increase practical burden further such as labeling composite names as carve-outs and creating a composite including only standalone portfolios to present alongside the performance of the composite including carve-outs: it would not be worth maintaining carve-outs due to such increased burden.
- b. Firms may need to consider cash allocation method that most accurately reflects asset allocation change or external cash flow during the month. We deem it is not realistic to specify the cash allocation method in a provision, but guidance should be included in the relevant Guidance Statement.
- c. For the purpose of exhibiting difference in performance between carve-outs with allocated cash and standalone portfolios, it is not deemed necessary to create a separate composite that includes only standalone portfolios. Firms should be required to present returns of standalone portfolios of the composite (if created) in the GIPS Composite Report that includes carve-outs with allocated cash. However, it should not be required to create a separate composite that includes only standalone portfolios.

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?
 - b. Do you agree with eliminating the requirement for real estate portfolios to separately calculate component returns?
 - c. Do you agree that component returns should be recommended for all composites and pooled funds when time-weighted returns are presented?
- a. We agree that the requirement for real estate portfolios to present component returns be eliminated.
- b. We agree that the requirement for real estate portfolios to separately calculate component returns be

eliminated.

- c. We agree that component returns should be recommended for all composites and pooled funds when TWRs are presented.

We received a comment that there is a question whether expanding the concept of component returns to assets other than real estate as a recommendation is meaningful (component returns would be as much as supplemental information for other assets).

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?
 - 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?
- a. We agree with introduction of “sunset provisions” concept. However, the provisions to which “sunset provisions” is applied need to be clearly specified in the GIPS provisions as identified in the exposure draft to avoid any arbitrary use by firms which may undermine the principles of fair representation and full disclosure.
- b. We think that there are more disclosures that deserve to have sunset provision: For Chapter 4, in addition to 4.C.16/20/35/39, sunset provision should be included in 4.C.18, 4.C.19, and 4.C.29.

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?
 - b. Are there other disclosures that would be meaningful that are specific to overlay strategy returns calculations?
- a. We agree that the firms should be required to disclose such details about calculations for overlay strategy composites as proposed in 4.C.44.
- b. No.

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?
- a. We agree that firms should be required to present MWR for only one period—from inception through

the most recent period end.

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?
 - 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.
 - 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?
 - 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?
- a. We believe that firms should be recommended to present returns both with and without the subscription line of credit activity for reasons that (1) there has been a lack of consistency in return calculations when lines of credit are used (as mentioned in #20 above) and (2) it seems that such calculation is doable only when the firm is managing the fund by itself and all the underlying funds for a fund-of-funds (If a portfolio is wholly or partially invested with third party funds, it may not be practical to require the firm to calculate return of the portfolio with and without lines of credit).
- Guidance should be provided on calculations of returns with and without the subscription line of credit activity. Otherwise the return calculations with and without lines of credit seem challenging for firms.
- b. We deem it appropriate to use the wording “return with/without subscription line of credit activity” as the primary purpose of use of subscription lines of credit is for meeting the unexpected, urgent need for funding, rather than leveraging the fund/portfolio.
- Although the wording “levered/unlevered returns” might be appropriate only when investors are fully aware in advance of such investment activity by the firm, it seems that this is not a common practice.
- c. We abstain from comments as we could not judge if the proposed requirement to treat all lines of credit the same regardless of short-term or long-term lines of credit is appropriate. We need more guidance.
- d. We agree that the treatment of subscription lines of credit applies only when MWR is presented.

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?
- a. We 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.

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?
- a. We do not think that presenting MWRs with different start dates in the composite that includes carve-outs provides helpful information to prospective clients. Furthermore, we believe that vintage year should be among the criteria for defining composites so that portfolios with different vintage year may be included in different 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?
- 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?
- a. See our comments on #17.a.
- b. We think that there are more disclosures that deserve to have sunset provision: For Chapter 5, in addition to 5.C.15/19/34/37, sunset provision should be included in 5.C.17, 5.C.18, and 5.C.28.

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?
- a. We agree that firms should be required to present pooled fund return that are net of all fees and expenses.

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?

- b. Do you agree with eliminating the requirement for real estate portfolios to separately calculate component returns?
- c. Do you agree that component returns should be recommended for all composites and pooled funds when time-weighted returns are presented?

See our comments on Question #16.

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?
- 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?

a. See our comments on #17.a.

b. We think that there are more disclosures that deserve to have sunset provision: For Chapter 6, in addition to 6.C.14/18/32, sunset provision should be included in 6.C.16 and 6.C.25.

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

a. See our comments on #19.

b. See our comments on #24.

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.

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

See our comments on Question #20.

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?

See our comments on Question #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?
- 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?

a. See our comments on #17.a.

b. We think that there are more disclosures that deserve to have sunset provision: For Chapter 7, in addition to 7.C.14/18/31, sunset provision should be included in 7.C.16 and 7.C.25.

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

a. We agree that asset owners should be required to update GIPS reports within a specified time period based on the principles of fair representation and full disclosure. The alleged rationale for not updating the GIPS reports on a timely basis is not acceptable at all.

b. We deem that 6 months is sufficient for asset owners to complete updating the GIPS reports after each annual period end.

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?
- a. Whether or not to compete for business by marketing to prospective clients is the most essential criteria for asset owners to determine if GIPS claim of compliance as an asset owner is possible. We agree that if an asset owner has the authority to compete for business by marketing to prospective clients, the part of the asset owner that is competing for assets must be defined as a separate firm, and this separate firm must follow all sections of the GIPS standards related to firms and all applicable requirements.

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?
- a. We agree that asset owners should be allowed to choose which returns are presented for the optional additional composites. However, we have a question what is the rationale for not requiring the same additional criteria as required for firms.

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?
- b. Do you believe that asset owners will have the ability to determine if estimated transaction costs are more conservative than actual transaction costs?
- a. We are not sure if that situation happens to asset owners, but even hypothetically, we think that when it happens asset owners should be allowed to use estimated transaction costs.
- b. We are not sure.

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

provision?

See our comments on #9.

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?
 - b. Is the change to lessen the required frequency for private equity for periods prior to 1 January 2020 appropriate?
- a. We agree that asset owners should be required to use daily cash flows as of 1 January 2020 when calculating MWRs.
- b. Asset owners are allowed to calculate and present MWRs only for additional composites, not for the total funds. This proposed change will affect only composites that asset owner chose to create, and therefore is acceptable.

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?
 - b. Is once every 12 months the appropriate valuation frequency given the expanded types of valuation that are allowed?
 - c. Are there any other types of valuation that should also be allowed?
- See our comments on #11.

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?
- a. We agree that asset owners should be required to present returns that includes the impact of any side pockets.

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?
- b. Would your answer differ when there are performance-based fees or carried interest?
- a. If the requirement of presenting 3-year annualized ex-post standard deviation is to shed light on investment strategy's risk, it should be calculated using gross-of-fees returns, but if it is to shed light on risk or volatility of acquired return, returns presented in the report should be used to calculate 3-year annualized ex-post risk measure. Unless the GIPS standards specifies type of risk to be reported, we would think asset owners should 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.
- b. 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?
- b. Do you agree with eliminating the requirement for real estate portfolios to separately calculate component returns?
- c. Do you agree that component returns should be recommended for all total funds and composites when time-weighted returns are presented?

See our comments on #16.

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?
- 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?
- a. See our comments on #17.a.
- b. We think that there are more disclosures that deserve to have sunset provision: For Chapter 11, in addition to 11.C.16/19/30/32, sunset provision should be included in 11.C.17, 11.C.18, and 11.C.27.

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?
 - 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?
- a. We agree that when reporting MWRs for additional composites asset owners should be required to present only one return—the since inception MWR through the most recent annual period end.
- b. When asset owners do not have records to support the entire track record, we agree that asset owners should instead be required to present MWR for the longest period for which the asset owner has such records.

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?
- a. We 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.

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?
- 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?

- a. See our comments on #17.a.
- b. We think that there are more disclosures that deserve to have sunset provision: For Chapter 12, in addition to 12.C.16/19/31/33, sunset provision should be included in 12.C.17, 12.C.18, and 12.C.27.

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?
- a. GIPS Advertisement is different from GIPS Reports. It's expected to be a shorter, simpler, abbreviated version of GIPS Reports. Nonetheless, it carries a GIPS compliance statement, and therefore we deem that firms and asset owners should be recommended 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?

- a. GIPS Advertising Guidelines are voluntary, not compulsory, to apply for firms claiming GIPS compliance. Therefore, we agree that firms should be required to include benchmark returns in a GIPS Advertisement for a broad distribution pooled fund that includes performance if benchmark is officially determined for the broad distribution pooled fund.

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?
- a. We think that the term and definition are understandable.

Other Comments

- 1.A.23 "The FIRM is responsible for its claim of compliance with the GIPS standards and MUST ensure that the records and information provided by any third party on which the FIRM relies meet the REQUIREMENTS of the GIPS standards."

The requirement of ensuring that the records and information provided by a third party meet the requirements of the GIPS standards is very challenging for firms, considering that many managers for private market investments are not in compliance with the GIPS standards. It would prevent firms being in compliance with the GIPS standards. Thus it should not be a requirement but a recommendation.

We have the same comments on 8.A.18.

- 1.A.30: The wording "on a going forward basis" is vague and should be clarified in the provision.
- 2.A.9: Should this provision be deleted?
- 5.A.1.e: The wording "... the number of PORTFOLIOS is not REQUIRED" does not coincide with 4.C.36 ("... MUST disclose that the COMPOSITE contains five or fewer PORTFOLIOS").

Comments on the 2020 GIPS Standards for Verifiers Exposure Draft

Overall Comments:

The Japanese Institute of Certified Public Accountants (JICPA) separately submitted their comments to the CFA Institute from the standpoint of verifiers.

The followings are our comments as a GIPS Country Sponsor:

Apart from technical issues that involve in the GIPS verification and performance examination, we would like to raise one big important point.

The GIPS 2020 Consultation Paper released for public comment in May 2017 did not include any proposals on verification, and therefore all of the GIPS stakeholders are now seeing the content of this Exposure Draft for the first time. We do not turn down the effort of the Verification Subcommittee. Rather we appreciate that effort. Considering a successful promulgation of the GIPS standards over the past two decades, we deem it appropriate to rethink the fundamental aspects of verification and performance examination by examining what they should be for.

Nonetheless, two-month lead time is too short for the entire industry to study the proposal in full. It should not be decided in haste and we strongly propose that the GIPS 2020 process should only deal with the minimum amendment on verification and/or performance examination due to the new/alterd GIPS provisions such as pooled fund reports, and discussions on verifier qualification, scope of verification, required verification procedures, and verification opinion should go on separately.

In so doing, the following should be clarified:

1. What are the problems with current verification and performance examination scheme?
2. What do we think verification and performance examination should provide?
3. How much tangible impact would the change cost for the entities undergoing verification and/or performance examination as well as recipients of verification and performance examination reports?

Qualification for verifiers needs an intensive review as we understand that verification by non-auditing firm verifiers are increasing. For ensuring a level playing field for all verifiers, we propose that verifier must conduct GIPS verification and/or performance examination in conformity with the ISAE3000 that is applicable to assurance engagements by non-auditing firms as well, or other attestation standards that incorporate the ISAE3000.

Comments on certain questions raised in the Exposure Draft:

Question 1): Contrary to the stated intention of the Verification Subcommittee to make verification opinion more aligned to the required verification procedures, we do not see any development as there is still a large gap between them. Thus we do not agree.

Question 5): We anticipate not a few firms would adopt the 2020 GIPS standards partly or entirely before the Effective Date e.g., stopping inclusion of broad distribution pooled funds into composites and closing those composites including only broad distribution pooled funds as at 31 December 2019. How will the verification for 2019 be conducted in this situation?
