CFA Institute
Global Investment Performance Standards
Jonathan Boersma
560 Ray C. Hunt Drive Charlottesville,
VA 22903-2981

Frankfurt, July 14, 2017

Re: GIPS 20/20 Consultation Paper

Dear Jonathan Boersma,

on behalf of the German Country Sponsor GAMSC, thank you for the opportunity to comment on the GIPS 20/20 Consultation Paper. Generally we appreciate the efforts to update and extend the GIPS.

In detail we have the following comments to the GIPS 20/20 Consultation Paper:

In your introduction you stated that the mission of GIPS is to achieve universal demand for compliance by asset owners and universal support by regulators. There seems however to be no, or nearly no information available, on how far this goal has already been reached.

As you stated, 85 from the 100 top asset managers are either partially or totally compliant. By increasing the standards to asset owners and the regulators we have to take care, that we do not lose the already compliant asset managers.

To avoid conflicts in the future, we propose that also in GIPS 20/20 in cases where applicable laws and/or regulations conflict with GIPS requirements and/or the GIPS Advertising Guidelines, firms are required to comply with the local law or regulation.

1. Structure

Question 1: Do you agree with the pillars concept? If so, should there be any other pillars?

In general we agree with the proposed pillars concept, as we think that it describes sufficiently the key situations from a strategic view point.

2. Pooled Funds

In general it is only consistent when one of the pillars in GIPS 20/20 is the old and new target group of pooled funds, but we cannot support some of the proposed treatments.

For German asset managers it would seem that a prospective investor should only get information about the portfolios in which he wishes to invest. Other than institutional investors, most of the pooled fund investors are not interested in receiving the factsheets for all funds every year or – even worse – they would not understand what they get and why they get all of them.

Not practical is that the performance for a single fund has to be net of all fees in general.

Especially with regard to the possibility to use the single fund factsheet instead of a single fund composite for prospect institutional investors, asset managers should have the possibility to choose, certainly according to the relevant regulatory requirements, either net or gross of fees.

In order to get a fair comparison between asset managers, not knowing the clients fees and expenses situation, the analysis of the deductible costs has to be made very carefully. If pooled funds would still be included into the composites, would they have to be calculated with different methods (clients cost situation vs. composite cost situation)?

We know that in a low interest environment fees and expenses are even more important topics, but based on the approach of transparency it may be more appropriate to disclose the fees and expenses included in the numbers represented rather than trying to present a net of all fee and expenses number.

Critical points are also the requirements to calculate net of “all” and “fees and expenses”. For the time being the wording seems to go very far. In many cases, the approach to deduct all fees and expenses is not appropriate, as the manager usually does not control these costs, in many cases the manager does not even know all of these costs. For different clients, expenses can be very different. So, to reflect on the clients’ experience is hard to reach. And to be honest, we have to enumerate each cost and expense in detail.

Before we consider which fees and expenses should be taken into account for the performance calculation, we first have to consider which performance we want to present: The client performance or the fund performance? Actually, we present the fund performance, knowing that a change to the client performance is hardly feasible. ,Primarily for the reasons already mentioned above, we will receive individual performance figures which are also influenced by the individual tax profile.

Question 2: Do you agree with the proposed treatment of pooled funds?

No. To use pooled funds as they are and not to force them into single fund composites is a good approach, but cost usage has to be analyzed very carefully – see above. The goal of presenting the performance has to be clearly identified: What is the central question - the comparison of manager results or individual client performance?

3. Asset Class-specific Guidance

Question 3: Do you agree that asset class-specific guidance should be consolidated where possible?

Yes, there is a need for greater consolidation on the different requirements and recommendations of asset classes. This could make the standard more clear and can reduce interdependences.

4. Time-Weighted Rates of Return vs Internal Rates of Return

Change the basis for calculation on the underlying investment to portfolio structure. Open-ended funds require TWRR, closed-end funds for which the manager controls the cash flows would be allowed to present internal rates of returns (IRR) or TWRR.

Question 4a: Do you agree with the proposal that firms should be allowed to choose whether to present IRRs or TWRRs for any closed-end, fixed life, fixed commitments fund where the firm controls the timing of the cash flows?

In most cases it is unclear whether or not the firm (completely) controls the timing of cash flows. Even for closed-end funds the portfolio manager might be dependent on contractual agreements or the timing of appropriate investment opportunities regarding capital calls or distributions.
In addition, a yearly calculation of the funds NAV is a minimum requirement in Europe. Coming MIFiD II regulation even assumes quarterly reporting periods (and therefore at least quarterly portfolios NAV calculation) as a standard. More frequent NAV calculation (added by internal NAV (or "indicative NAV") is becoming ever more demanded in the asset management industry.
Reflecting this, for GIPS 20/20 a regular NAV calculation can be assumed and we propose to use the TWRR as a standard for ALL performance calculation. Regarding closed-end, fixed life, fixed commitments fund, in addition internal NAV should be used when available, the use of internal NAV should be disclosed.
In order to deal with cash flows between two subsequent NAV, TWRR-approximations like Modified Dietz should be used and the use of methods should be disclosed.

Using TWRR as the basic calculation method allows for comparability between all portfolios and avoids the well-known pitfalls of the IRR method.

Further research on this approach has been done by the German country sponsors last year. We would be more than happy to discuss our interesting findings with you.

Question 4b: What criteria should be required for a firm to be allowed to present an IRR versus TWRR?

In our opinion TWRR is by far more preferable than IRR. However, in very special situations it could be allowed to continue using IRR, e.g. when there is no (indicative) NAV available during the lifetime of a portfolio/funds. Further investigation on those exceptional situations is needed. Anyway, the use of IRR has to be disclosed.

5. Valuation Frequency

Question 5a: For calculating TWRR, do you believe that valuing monthly and at the time of all large cash flow suffices?

Valuation is an important factor in calculation returns. The more frequent the valuation, the more accurate the return. Standardizing of valuation periods is as well an important factor, as many measures rely on standardized time periods and different periods can mean different results for these measures. A daily valuation is often adequate to get all needed data for large cash flows. This does not mean that daily data is always available in the Performance and GIPS-Systems for return calculation. We think as a requirement, the monthly valuation and the valuation for large cash flows are sufficient. More frequent valuation should be recommended.

Question 5b: For calculating IRR, do you agree with the proposed valuation frequency for all portfolios regardless of the underlying investment or asset class?

Yes, we agree with the proposal for calculating IRR. The proposal is a yearly valuation, which we see as a minimum requirement, and a valuation, whenever performance is calculated and presented to prospective clients /fund investors.

6. Distribution of Composite-compliant Presentation and Pooled Fund Reports to existing clients

Question 6a: Do you agree that firms should be required to provide a pooled fund report to investors in the pooled fund on an annual basis?

No, when the GS for Pooled Funds has been developed, the working group examined possible ways to provide a pooled fund report to investors. In many cases, the asset manager/ the firm doesn't even know who the owner of the pooled fund at a specific time is. So, asset managers/ the firms have no possibility to provide this, if not requested by the client. Ultimately, the decision of the working group was liberal, because the requirements first of the regulation in some countries and second the often missing connection to the client set strong limitations.

In the European Union the legislation and the regulation has made comprehensive requirements how the client information must be: The content, the form and the frequency is regulated by law, additional requirements are for legal reasons are not possible. We think that, as of today, the legal requirements in the EU are very high and should be sufficient to satisfy the needs of the GIPS 20/20.

Due to the special constructions and conditions of sale, e. g. for closed-end funds, it doesn't make sense to require a pooled fund report for prospective clients.

For the above reasons we would like, that the distribution of GIPS pooled fund reports to pooled fund investors to be at most a recommendation.

Question 6b: Do you agree that firms should be required to provide a compliant presentation to existing clients in the composite on an annual basis?

No. The GIPS Standards have always been focused on the prospective client relationship and a major reorientation towards the existing client is not acceptable as mentioned before and might induce asset managers to search for new standards (see the new reporting standard for investment consultants and fund managers, June 2017).

Existing clients receive a detailed portfolio-specific reporting for their investment, which highlights the portfolios results, often in comparison with its client specific benchmark. Requiring to deliver composite results to all existing clients once a year brings a second benchmark into the client communication. Statistically, all composites have in general portfolios, which are better than the composite and portfolios which are worse than the composite. This means, that asset managers have to explain every year, why about 50% of their portfolios perform below the composites return. This is not constructive.

Some clients do not want to see the composites results, as they understand, what a composite is – an average of portfolios.

We think a recommendation to show these results when appropriate is sufficient.

Question 6c: Do you agree that firms should be required to make an offer to provide a composite compliant presentation or pooled fund report to existing clients or pooled fund investors on an annual basis?

No. Clients should ask for this.

7. Total Firm Assets

Advisory Assets are becoming more important. These include unified managed accounts (UMAs), model portfolios and advisory-only portfolios. The underlying portfolios in overlay strategies are also not included. The consideration is to differentiate: assets managed, advised and overlaid.

Question 7a: Do you agree with creating a new category of assets as described above?

Today all assets managed and advised are included in the Total Firms Assets. Due to legal reasons, it might be hard to differentiate between what is managed and what is advised. In Germany, many portfolios are from a legal perspective “advised”, but from a real perspective “managed”. For model portfolios, we do not see a need for these to be included in composites. Data management for external portfolios advised can be challenging.

Question 7b: Which assets should be included in this new category of assets (e.g., UMAs, models, overlay, and advisory-only portfolios)?

We think, this should only be assets managed (either direct or via advisory). In any case models or model portfolios should not be included.

Question 7c: Should firms be recommended or required to report this new category of assets as well as total firm assets in compliant presentations?

We think these figures could hardly be verified. We are also of the opinion that hypothetical results should not be reported, but for assets managed we think it could be recommended.

8. Non-Fee-Paying Portfolios

Question 8a: Do you agree with no longer allowing firms to exclude non-fee-paying portfolios from composites based solely on fee-paying status?

Yes, we think that fee paying should be not be a reason for qualifying a real portfolio to be excluded from a composite.

Question 8b: How should non-fee-paying portfolios be treated for net-of-fees calculations?

These portfolios should use a model fee, which is as high as the average of the fees in the composite.

9. References to the Firm’s Claim of Compliance

Question 9: Do you agree that firms should have more flexibility to state that the firm complies with the GIPS standards?

Yes, we recommend this greater freedom to use the statement, as it helps to get a greater knowledge about the firms claim of compliance and about the GIPS-Standards, but there should be clear standards for this.

10. Timeliness and Frequency of Compliant Presentations

Question 10a: Do you agree with requiring firms to update compliant presentations on a timely basis?

We recommend requiring firms to update compliant presentations. But we propose to give the firm the time that they need to do this. A six months period is potentially too short, so we prefer to extend this to at least one year.

Question 10b: How current should the information be required to be in a compliant presentation?

We recommend that firms use no compliant presentation with data older than 24 months. It should be made clear that the verification of the compliant presentation with more recent data can follow at a later stage.

11. Estimated Trading Expenses

Question 11: Do you agree with allowing firms to use estimated trading expenses?

Yes, as long as the usage and the average trading expenses are disclosed.

12. Compliant Presentation Numerical Information and Disclosures

Question 12a: Which existing numerical information and disclosure requirements, if any, should be removed?

We do not see any.

Question 12b: Is there any information not currently required that should be required in compliant presentations?

We do not see a need for inclusion of attribution or asset allocation figures. As many GIPS systems don't manage single security data and attributions have the need for detailed index data, this could become a problematic issue for many asset managers and could result in decisions for some to end the usage of GIPS Compliance in Europe.

Furthermore, this can already be added as supplemental information.

Question 12c: Are there any disclosures that can be discontinued after a certain period-of-time?

Yes, the required disclosures should be checked and there should be a rule for discontinuing disclosures after a certain period of time, preferably 3 years, not more than 5 years.

13. General

Question 13: Are there other issues that are important for us to address as part of the GIPS 20/20 project (e.g., private wealth, outsourced CIO, model/hypothetical performance, carve-outs and "building blocks")?

The improvement of GIPS to include a wider range of asset managers and asset owners is a big deal. At the same time, we should not forget all these asset managers, who have been supporting GIPS for a long time and we should not forget, how much energy and money was spent to get into compliance. The GIPS 20/20 Standards should therefore be changed very carefully, not to lose these longtime supporters.

Additionally, one should think about facilitation in the GIPS rules for smaller firms, in order to attract those firms especially in the private wealth area.

Yours sincerely

Signed Rudolf Siebel BVI	Signed Harald Edele CFA Society Germany	Signed Ulf Mayer DVFA