CFA Institute
Global Investment Performance Standards
Jonathan Boersma
560 Ray C. Hunt Drive Charlottesville,
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Frankfurt, 25 September 2017

Re: Exposure Draft of GIPS Guidance Statement on Risk

Dear Jonathan Boersma,

On behalf of the German Country Sponsor GAMSC, thank you for providing us with the opportunity to comment on the GIPS Guidance Statement on Risk. We have the following comments to the Exposure Draft.

Question 1) Do you agree with the removal of provision 5.A.2.b, which reads "For periods ending on or after 1 January 2011, FIRMS MUST present, as of each annual period end: b. An additional three-year EX-POST risk measure for the BENCHMARK (if available and appropriate) and the COMPOSITE, if the FIRM determines that the three-year annualized EX-POST STANDARD DEVIATION is not relevant or appropriate. The PERIODICITY of the COMPOSITE and the BENCHMARK MUST be identical when calculating the EX-POST risk measure."?

Yes, we agree with the removal of this provision, provided that paragraph 5.B.6 remains part of the GIPS® standards.
Removing provision 5.A.2.b and keeping 5.A.2.a gives a clear provision that is valid to all firms: The three-year annualized EX-POST STANDARD DEVIATION has to be disclosed.

Above all, paragraph 5.B.6 in the chapter Presentation and Reporting — Recommendations of the GIPS® STANDARDS says FIRMS SHOULD present additional relevant COMPOSITE-level EX-POST risk measures.

This recommendation focuses on the assumption that disclosing the three-year annualized ex-post standard deviation may not be sufficient in all cases and additional relevant EX-POST risk measures should be used. We strongly support this recommendation.

Question 2) Do you agree with the new requirement to disclose whether gross or net returns for the composite were used in the calculation of the three-year annualized ex-post standard deviation?

Yes, we agree with this new requirement. According to 5.A.1, firms have to disclose if composite returns are shown net-of-fees or gross-of-fees anyway. We strongly support the new requirement to include this disclosure for the standard deviation.

Question 3) Should firms presenting gross (net) returns be required to use gross (net) returns in the calculation of the three-year annualized ex-post standard deviation?

Yes, we strongly support the new requirement that firms must use the same returns for performance as for risk figures.

Question 4) If both gross and net returns are presented, should firms be required to present the three-year annualized ex-post standard deviation for each type of return presented?

No, we do not see the need to introduce this as a requirement.
It should be sufficient to add the three-year annualized ex-post standard deviation either based on gross or net returns in case both return types are presented with clear disclosure about which returns are used. In our experience, the standard deviation figures for gross and net return figures do not differ significantly from each other. Therefore, the additional benefit of presenting both standard deviation figures is doubtful.

Question 5) Do you agree that when a firm includes an additional composite and benchmark ex-post risk measure that the periodicity of the composite and benchmark returns must be identical?

Yes, we support this requirement. As the measures for the composite are compared with the measures for the benchmark, the calculation of both measures must be based on the same assumptions.

However, the statement "A new recommendation is proposed that firms should present additional, relevant ex-post risk measures for the composite and the benchmark. When an ex-post risk measure is calculated and presented for both the composite and the benchmark, the periodicity of the composite and benchmark returns must be identical.", should not be introduced as a new recommendation, but instead as an extension of the existing recommendation 5.B.6.

When writing "When an ex-post risk measure is calculated and presented for both the composite and the benchmark, the periodicity of the composite and benchmark returns must be identical.", it is unclear whether 'periodicity' means 'period', which is reported (e.g., 3 years) or 'periods used to calculate' (e.g., monthly returns). We strongly support the requirement that both are kept identical.

Question 6) Do you agree with the requirement to disclose a description of the additional risk measure presented and how the measure is relevant to the strategy?

Yes, we agree with this requirement. A firm can decide itself which kind of measure shall be used. It cannot be presumed that a measure is commonly known, especially not if the disclosure of the measure is not commonly requested.

Question 7) Are there additional, commonly used ex-post risk measures that provide helpful information to prospective clients that should be included as examples?

We have some general thoughts on examples concerning additional risk information:

The inherent extensions of a return data sample's risk description beyond the first order moment (mean of return) and second order moment (standard deviation) is the reporting of

1) *higher*-order moments (skewness and kurtosis)

2) proxies of downside-related coherent risk measures (conditional VaR/expected shortfall) to capture asymmetric and/or tail risk information (e.g., the mean average drawdown of N sorted returns)
3) term structure-related risk information (e.g., a variance ratio)

Due to some caveats concerning robustness and statistical inference (keeping the latent ex-ante view of a prospective client in mind) of the additional information, it is recommendable to use a lower-than-monthly periodicity of return data (daily/weekly, depending on availability).

The four examples of risk figures (listed in the draft) should be classified in *risk measures* (ex-post Tracking Error, (ex-post) Maximum Drawdown) and *risk-adjusted performance measures* (ex-post Sharpe Ratio, (ex-post) Information Ratio), in order to clearly distinguish between the different underlying mathematical concepts..

Question 8) Do you agree with the requirement that if a risk measure is presented that uses a risk-free rate, the risk-free rate used must be included in the description of the measure?

Yes, we strongly support this new requirement. The usage of a risk-free rate is very important for the calculation of some risk figures. Due to transparency reasons, this description should be included in every composite description, where this risk figure is shown. As the risk-free rate is composite-specific, the disclosure must be part of the composite description.

Question 9) Is the description of risks that could have significant influence on returns adequate, or are there additional risks that should be included?

We see a problem with the usage of general risk descriptions, as any investment contains risk. Where should one start describing risks? If an investor is interested in specific composite results, he should have a general understanding of the inherent risks. So these additional risk specifications should only be used for critical and uncommon risks. It is hard to define where to start. We see the risk that these descriptions are used to explain general, well-known situations and reduce the focus on really risky areas. Consequently, we strongly recommend to focus on risks inherent to the strategy that deviate from the benchmark risk or are uncommon risks for particular composites. E.g. a worldwide bond portfolio strategy that (partially) includes currency and duration risk hedging implies a risk deviation from the strategic risk profile, which is associated with a common worldwide bond portfolio. Therefore, this (strategic) risk deviation should be explained in the composite description.

In addition to the answers to the questions listed in the draft exposure we propose to make some changes in the sections “Relations with Regulatory Requirements” and “Policies and Procedures”

Relations with Regulatory Requirements:
We propose to change the following paragraph

“To claim compliance with the GIPS standards, firms must comply with all requirements and must also comply with all applicable laws and regulations regarding the calculation and presentation of performance, which includes both risk and return. Firms must determine whether any risk-related information required by laws or regulations should also be included in compliant presentations and any conflict with the requirements of the GIPS standards must be disclosed.”

to

“To claim compliance with the GIPS standards, firms must comply with all requirements, but they must first and foremost comply with all applicable laws and regulations regarding the calculation and presentation of performance, which includes both risk and return. If firms are obliged to offer the information as required by laws and regulations as the only possible information, this same information must be included in the compliant presentation. It is recommended that any conflict with the requirements of the GIPS standards should be disclosed."

Policies and Procedures:
We propose to change the following paragraph:

"Although it is expected that such regulatory required policies and procedures will be broader than those required by the GIPS standards, it is possible that the policies and procedures regarding the calculation and presentation of risk may be sufficient to satisfy the policies and procedures requirement of the GIPS standards."

to

Although it is expected that such regulatory required policies and procedures will be broader than those required by the GIPS standards, it has to be accepted that these policies and procedures regarding the calculation and presentation of risk may be sufficient to satisfy the policies and procedures requirement of the GIPS standards."

These changes take into account that legal and regulatory requirements will always have a very strong position.

Yours sincerely

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