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GIPS 20/20 consultation paper: Feedback of the SFAMA Swiss GIPS Expert Group

Dear Sir/Madam,

Many thanks for the opportunity to provide feedback to the GIPS 20/20 consultation paper on behalf of the Swiss Funds and Asset Management Association SFAMA as the GIPS country sponsor in Switzerland.

Our specific feedback to your questions is as follows:

1. Structure

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

Answer:
Yes, we agree.

Remarks: While the three pillars make sense as such, there is already clearly separated dedicated topical guidance within the GIPS standards for these pillars (i.e. the Pooled Funds Guidance Statement and the Asset Owners Guidance Statement). A question arises whether the proposed restructuring of the GIPS standards under those three pillars is rather a "nice to have" than "must have". Besides, in some instances it may be difficult to clearly allocate the asset class specific guidance among the envisaged three pillars (e.g. the Guidance Statement on Alternatives Strategies).

We recommend to address the following cases:

- Certificates
- Structured products
- Managed profiles
- Share classes (selling of institutional classes to individual qualified investors)

2. Pooled Funds

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

Answer:
Yes, we agree.

Remarks: The proposed treatment appears confusing. It lists typical controversial issues of treatment of pooled funds in terms of GIPS compliance, such as excessive and redundant composite reporting for single-fund-composites that contain only one fund that already produces regulatory reports that include performance information (such as fund factsheet, KIID and annual report). However, those issues have already been dealt with in the GIPS Pooled Funds Guidance Statement, but the proposed treatment includes no reference to that Guidance Statement and does not show to what extent additional or new solutions are proposed to be introduced. It looks like the known problems and issues of pooled funds and GIPS are being rolled out again to discussion. In particular, the following questions arise with respect to the proposed treatments:

- "Firms would not be required to create single-fund composites simply to meet the requirement that “all fee-paying discretionary portfolios must be included in at least one composite"; "a "pooled fund report" for an individual fund would have to be presented". "The fund report information may differ from the information included in a composite compliant presentation": How is this all different or better than the current treatment in the Pooled Funds Guidance Statement?
- "We believe that the performance of a single fund that is presented to prospective investors should be required to be presented net of all fees and expenses because this reflects the pooled fund client experience. In addition to presenting returns that are net of all fees and expenses, firms may choose to present gross-of-fees returns as permitted by regulatory requirements.": All this can already be presented under the current GIPS framework - how is this different?

3. Asset-Class-Specific Guidance

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

Answer:
Yes, we agree.

Remarks: While we agree with this in general, the consolidation potential may be significantly lower than it may appear. For example, while the real estate closed-end fund provisions could indeed by consolidated with the Private Equity provisions, the open-end real estate investments would still warrant separate provisions due to nature of those asset classes.

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

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?

Answer:
No, we do not agree. For closed-end, fixed life, fixed commitment funds, for which the investment manager controls the cash flows, firms shall be required to present internal rates of return (IRR). The disclosure of TWRR should only be allowed in addition to IRR.

Remarks: We believe that IRR should be expanded to the Money-Weighted Return (MWR) in general (the IRR being just a possible method to calculate the MWR return). The relevant criterion should be the control of the timing and size of external cash flows and not necessarily the structure of the fund/portfolio in terms of being closed-end or fixed-life. The MWR should be required and the TWR should be recommended to be presented for any funds/portfolios where the manager controls the timing and size of external cash flows. Please note that in our GIPS Expert Group there are members that would request to present both.

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

Answer:
If the investment manager controls the cash flows, the firm should present IRR as appropriate performance measure. Further guidance miht be necessary to mitigate discretion when determining, whether an investment manager in fact controls the cash flows. Control over the cash flows is assumed, if the investment manager has the legal and operational ability to decide on money flows into and out of the account (at any time).

We agree with this proposal in principle. We believe that IRR should be expanded to the Money-Weighted Return (MWR) in general (the IRR being just a possible method to calculate the MWR return). The relevant criterion should be the control of the timing and size of external cash flows and not necessarily the structure of the fund/portfolio in terms of being closed-end or fixed-life. The MWR should be required and the TWR should be recommended to be presented for any funds/portfolios where the manager controls the timing and size of external cash flows.

We understand that there are very specific investment products around that need a detailed analysis with respect to controls of cash flows.

5. Valuation Frequency

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

Answer:
No, daily.

Remarks: Our experience in Switzerland shows that firms effectively either value portfolios and calculate returns on a daily basis or value the portfolios and calculate returns upon all external cash flows. However, we acknowledge that this still may be difficult for some firms in some territories, hence the current regime within the GIPS standards can remain. Detailed guidance for specific investment products with infrequent NAV calculation should be provided.

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

Answer:
Yes, we agree.

6. Distribution of Composite Compliant Presentations 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?

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?

Answer:
Yes and no. This proposal may make sense and may be feasible for some sophisiticated investors. However, we have the following concerns:

- It may not be practicable for private wealth management clients because those clients may lack the necessary knowledge to understand the GIPS composite reporting. It would impose a significant burden on firms if they are required to introduce this additional client reporting. Moreover, it would discourage many private client wealth managers to comply with the GIPS standards.
- Institutional investors' portfolios tend to have heterogenous investment guidelines and are often grouped in broadly-defined composites with a larger dispersion of portfolio returns within the composite. Providing a composite report to such clients would result in questions why the individual portrfolio performance is significantly different from the composite return. This may require additional extensive explanation efforts by client relationship managers and, in order to avoid this burden, may motivate firms to creating narrow portfolio-specific "1-to-1" composites which might not be in the interest of the ultimate goal of the GIPS standards to achieve comparability of composite performance among investment managers.

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?

Answer:
Yes and no. This proposal may make sense and be feasible for institutional investors such as pension plans. However, it is not practicable for private wealth management clients because those clients may lack the necessary knowledge to understand the GIPS composite reporting. It would impose a signficant burden on firms if they are required to introduce this additional client reporting. Moreover, it would discourage many private client wealth managers to comply with the GIPS standards.

7. Total Firm Assets

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

Answer:
No, we disagree with this proposal in principle. The GIPS standards by their virtue relate to assets for which the firm has discretion and responsibility for investment performance. Presenting any other types of assets (advisory, custody) would create confusion, and would be difficult to calculate and verify. Firms can always present such assets as supplemental information if they wish.

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

Answer:
No, we disagree with this proposal in principle. The GIPS standards by their virtue relate to assets for which the firm has discretion and responsibility for investment performance. Presenting any other types of assets (advisory, custody) would create confusion, and would be difficult to calculate and verify. Firms can always present such assets as supplemental information if they wish.

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

Answer:
No, we disagree with this proposal in principle. The GIPS standards by their virtue relate to assets for which the firm has discretion and responsibility for investment performance. Presenting any other types of assets (advisory, custody) would create confusion, and would be difficult to calculate and verify. Firms can always present such assets as supplemental information if they wish.

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?

Answer:
Yes, we agree.

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

Answer:
Such assets and their impact on net performance should be clearly disclosed.

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?

Answer:
Yes, we agree.

10. Timeliness and Frequency of Compliant Presentations

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

Answer:
Yes, we agree

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

Answer:
We believe that reports should be produced within a month, considering the operational implications, we propose to produce within a quarter.

11. Estimated Trading Expenses

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

Answer:
Yes, we agree. However, the firm would be required to determine the actual trading expenses of main products and have their estimated trading expenses undergo verification.
In Switzerland many firms use all-in fees and the issue of determination of implicit trading expenses included in the all-in fee is very relevant to us.

12. Compliant Presentation Numerical Information and Disclosures

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

Answer:
Articles:

- 4.A.15
- 5.A.3
- 5.A.5

- 5.A.6
- 5.A.7

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

Answer:
We believe that investment risk measures consistent with the total presented period of the GIPS compliant track-record must be required (e.g. not just the annualised standard deviation over the three years, but for the total track-record presented).

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

Answer:

It may be worth considering limiting the following disclosures:

- 4.A.14
- 4.A.15
- 4.A.16
- 4.A.17
- 4.A.18

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”)?

Answer:
We would welcome addressing the following matters:

- Relaxing the current GIPS provisions with respect to use of carve-outs (regarding the requirement to have separate cash), especially for Private Equity composites.
- Creating composites on the basis of "building blocks" composed of asset classes and segments, which is particularly relevant to private wealth management clients (also relates to the problem of carve-outs).
- Revising the Private Equity provisions and Real Estate provisions to better accommodate the market practice and need of investment managers and in order to facilitate higher compliance rates in these areas.
- The concept of appropriate composite benchmarks selection should be addressed. Benchmark is one of the most important and most prominent disclosures which (prospective) clients take into account when making decisions. We encourage the development of a “benchmark guidance statement”.
- Another area to be addressed would be Model/hypothetical performance.

Thanks in advance for considering our comments.

Sincerely yours

Swiss Funds & Asset Management Association SFAMA

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