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GIPS 2020 Exposure Draft: Feedback of the SFAMA Swiss GIPS Expert Group

Dear Sir/Madam,

Many thanks for the opportunity to provide feedback to the GIPS 2020 Exposure Draft on behalf of the Swiss Funds and Asset Management Association SFAMA as the GIPS country sponsor in Switzerland.

Our specific feedback to your questions for public comment is as follows:

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.

Are the terms limited distribution pooled fund and broad distribution pooled fund easily understood?

Agree, but the terms are not easily understood. The terms "limited" and "broad" distribution need further clarifications. GIPS 2020 mention hedge funds and private equity funds as possible examples for limited distributed pooled funds. However in practice the distinction between limited and broad is not always clear cut.

Example:

Securities funds (e.g. bond, equity or balanced) that are used as an investment vehicle for pension funds only and the pension funds can invest into these security funds only via an investment mandate with the asset manager.

- ⇨ Does the requirement of an investment mandate result in having to define such a security fund as "limited distributed"? Or can the pension fund investor universe be defined as "general public", which would make a definition as "broad distribution" possible?

Are there terms that would better differentiate these two categories of funds? One suggestion is to use the terms "private funds" and "public funds."

Not agree

The terms "private funds" and "public funds" are understood as relating to private funding or government funding of an investment. For example "private funds" can be interpreted as Funds available in the private sector without government involvement, support or guarantee.

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?
   Agree

b. Do you agree that six months is the appropriate amount of time?
   Not agree
   There are entities who may have difficulties to meet the requirement of six months due to ongoing final valuations (e.g. Private Equity funds, Real Estate funds).

   Suggestion for 1.A.12: The FIRM MUST update GIPS COMPOSITE REPORTS and GIPS POOLED FUND REPORTS to include information through the most recent annual period end within six months of that annual period end or upon availability of the external fund valuation. It should be considered to have asset class specific requirements.

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?
   Agree
   The period in general could be a bit shorter. 2 years would be enough for funds and composites. This should only be required for the total fund and not for share classes.

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?
   Agree

But it should be defined what "appropriate" means, to limit the possibility for hiding composites / funds etc. “Appropriate” should mean according to laws and regulations.

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?
Not agree
If a firm managing a large list of broad distribution pooled funds can be asked to provide a description on request, the firm will need to set in place appropriate policies and procedures to provide such a description. The firm will probably need automated systems to provide a broad pooled fund description on request, enabling it to provide not only a list of names but a list of mutual descriptions as well.

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?
Agree
This should not lead to cherry picking.
With respect to the requirements of 1.A.29, if a past firm never built composites, can portability requirements be also met on a portfolio-specific basis instead of a composite-specific basis?

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?
Agree
The formulation "and that firms should be able to port history from the prior firm or affiliation after the one-year grace period” is open for interpretation. Would that mean that non-compliant track record is linked to a compliant track record? The ported history does not need to be brought in line? This should be allowable only with specific disclosures. Does this language mean that firms can have as much time as they want to bring the portable history into compliance and to link it to the results of the new firm? The one year grace period applying only to the integration of the acquired assets going-forward (no history).

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?

Agree
This seems to be obvious, but for avoidance of doubt this fourth test should be explicitly specified in the 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?
Agree
No, no additional criteria.

b. Are the appropriate names used for these additional criteria?
Agree

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?
Agree
Although the purpose of this article is to allow for more flexibility in presenting money-weighted returns or TWR, firms should be obliged to present MWR if they control the cash flows and one of the characteristics is presented.

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?
Agree

b. Do you agree that firms should be required to not include committed capital in total firm assets?
Agree

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' 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?
   Agree

Do you believe that firms will have the ability to determine if estimated transaction costs are more conservative than actual transaction costs?
   No
   Firms may not always have the ability to determine this in some instances. Firms should be allowed to use reasonable estimates supported by a thorough analysis.

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.

Should firms be required or recommended to treat research costs in a specific way?
   Recommended
   Research costs should be treated like management fees, if charged directly to the account.

Should firms be required or recommended to disclose how research costs are reflected in returns?
   Required

Should firms be required or recommended to disclose if research costs are separately charged to clients?
   Required
   Only if d. is a recommendation. Recommended if d. is a requirement.

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?
   No
   This article should apply to all types of assets where the firm uses historical price or preliminary, estimated values as fair values. The guidance should be in line with the valuation policies of the firm.

b. Should this guidance instead continue to be included in guidance rather than included as a provision?
   No
   Include as a provision.

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?
Agree

b. Is the change to lessen the required frequency for private equity for periods prior to 1 January 2020 appropriate?
Not agree
Daily Cash flows are already available in most systems. This change may require historical adjustments from daily to quarterly cash flows for cash flows prior to 1 January 2020, if daily cash flows have been used up to this date. What is the purpose of the change to lessen the frequency on 1 January 2020?

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.

⇨ It should be considered to give additional guidance on the valuation.

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?
Agree
Since private market investments are illiquid, it would make sense to require an external valuation, valuation review or financial statement audit. Definitions of the terms are necessary.
How would a financial statement audit automatically equal to external valuation or review? Audit just provides assurance on the financial statements of the fund, incl. valuation, and may actually include a qualification on the valuation. How is a qualified auditor's report regarded in this respect?

b. Is once every 12 months the appropriate valuation frequency given the expanded types of valuation that are allowed?
Agree

c. Are there any other types of valuation that should also be allowed?
No

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?
Agree
Yes, provided that it applies only to discretionary side-pockets

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?
   No, but the risk figures should be in line with the return type presented.

Would your answer differ when there are performance-based fees or carried interest?
   No
   See comment in a.

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?
   Agree

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?
   Not Agree
   But provisions should allow carve-outs with no cash account.

b. Should firms be required to use a specific method to allocate cash to carve-outs?
   No
   4. C. 25 c. requires disclosure of the policy used to allocate cash. This seems to be sufficient.

c. Do you agree that firms should be required to create and maintain a composite that includes only standalone portfolios?
   Agree

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?
Agree

b. Do you agree with eliminating the requirement for real estate portfolios to separately calculate component returns?
Agree

c. Do you agree that component returns should be recommended for all composites and pooled funds when time-weighted returns are presented?
Disagree
We disagree with recommendation as this is not common for other asset classes besides Real Estate.

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?
Agree

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?
Agree
But former changes to the minimum asset level for composite inclusion should profit as well from the sunset provision.

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?
Agree

b. Are there other disclosures that would be meaningful that are specific to overlay strategy returns calculations?
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?
Agree

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?
Agree

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.
No
Not needed to find other terms.

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?
Agree
But there should be a conceptual differentiation between a subscription line of credit and a line of credit used to strategically leverage the portfolio, e.g. when the invested capital is used as a collateral to take a loan and leverage the portfolio. Returns of portfolios that are strategically leveraged must always reflect the exposure-increasing impact of the line 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?
Agree

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?
Agree

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?
   No

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?
   Agree

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?
   Agree
   But former changes to the minimum asset level should also fall under this sunset provision.

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?
   Agree
   Presenting gross returns should be allowed in addition to net returns. Existing pooled funds composites used in marketing composites to segregated accounts are often presented "grossed up".

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?
   Agree

b. Do you agree with eliminating the requirement for real estate portfolios to separately calculate component returns?
   Agree

c. Do you agree that component returns should be recommended for all composites and pooled funds when time-weighted returns are presented?
   No

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?
   Agree

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?
Agree

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?
   Agree

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

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?
   Agree

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.
No
Not needed to find other terms.

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?
Agree

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?
Agree

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?
Agree

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?
Agree

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?
Agree

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?

Agree

b. Do you agree that six months is the appropriate amount of time?
Not agree
There are entities who may have difficulties to meet the requirement of six months due to ongoing final valuations (e.g. Private Equity funds, Real Estate funds).

Suggestion for 1.A.12: The FIRM MUST update GIPS COMPOSITE REPORTS and GIPS POOLED FUND REPORTS to include information through the most recent annual period end within six months of that annual period end or upon availability of the external fund valuation. It should be considered to have asset class specific requirements.

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?
Agree

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?
Agree

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?
Agree

b. Do you believe that asset owners will have the ability to determine if estimated transaction costs are more conservative than actual transaction costs?
Not agree
Contrary to investment management firms, asset owners may not necessarily execute investment transactions by themselves, but may delegate management of their assets to third-party managers who may charge a bundled fee (in which the transaction costs would be implicitly included) or who may not be providing the information on actual transaction costs to the asset owners.

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?
No
This article should apply to all types of assets where the firm use historical price or preliminary, estimated values as fair values.

b. Should this guidance instead continue to be included in guidance rather than included as a provision?
No
Include as a provision.

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?
Agree

b. Is the change to lessen the required frequency for private equity for periods prior to 1 January 2020 appropriate?
Not agreed
Daily Cash flows are already available in most systems. This change may require historical adjustments from daily to quarterly cash flows for cash flows prior to 1 January 2020, if daily cash flows have been used up to this date. What is the purpose of the change to lessen the frequency on 1 January 2020?

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?
Agree.

Since private market investments are illiquid, it would make sense to require an external valuation, valuation review or financial statement audit. Definitions of the terms are necessary.
How would a financial statement audit automatically equal to external valuation or review? Audit just provides assurance on the financial statements of the fund, incl. valuation, and may actually include a qualification on the valuation. How is a qualified auditor's report regarded in this respect?

b. Is once every 12 months the appropriate valuation frequency given the expanded types of valuation that are allowed?
Agree

c. Are there any other types of valuation that should also be allowed?
No

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?
Agree

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?
No
The risk figures should be in line with the return type presented.

b. Would your answer differ when there are performance-based fees or carried interest?
No
See comment in a.

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?
Agree

b. Do you agree with eliminating the requirement for real estate portfolios to separately calculate component returns?
Agree

c. Do you agree that component returns should be recommended for all total funds and composites when time-weighted returns are presented?
Not Agree
We disagree with recommendation as this is not common for other asset classes besides Real Estate.

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?
Agree

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?
Agree

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?
Agree

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?
Agree

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?
Agree

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?
Agree

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?
Agree

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?
Only Recommended

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?
Agree (conditionally)
Only if the fund has a benchmark, and explain why, if the fund has no benchmark.

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?
No
The glossary definition should be improved to read:
"The costs associated with buying or selling shares units of a POOLED FUND **and/or with subscriptions or redemptions of units of a POOLED FUND**."

In addition to the feedback on the questions above, following please find some specific comments:

1.A.10 a) + b) Provide a GIPS Report always when a client is assessed as prospective.
It makes no sense to distinguish between a prospective client and
a "still prospective client". A tracking needs too much resources and is not realistic.
The second sentence has to be deleted. It is up to the firm and prospecite client to update or ask for

1.A.13. "reasonable effort" has to be defined in the glossary or in a Q&A to get more insight was is

1.B.7. "marketing materials" has to be included in the glossary or in a Q&A to get more insight was is meant by marketing material. And whether it also relates to sales materials (marketing

2.A.2 b. Impact of leverage in total firm assest
The focus shoutd be on the management of underlying assets. Therefore, whether these underlying

2.A.4 Any PORTFOLIOS for which the FIRM has discretion over the selection of a SUB-
How strictly is this to interprete? A sub-advised portfolio my have, for example, a different treatment

2.A.33 If the FIRM uses model INVESTMENT MANAGEMENT FEES to calculate COMPOSITE NET-OF-FEES returns, the returns calculated MUST be equal to or lower than those that
This provision is actually a contradiction to 2.A.32.b, because it allows to use the highest theoretical fee applicable to prospective clients without having to apply the test against actual fees. 2.A.33

4.D.10 The FIRM SHOULD disclose if BENCHMARK returns do not reflect TRANSACTION
We agree with this recommendation. However, a more important question is what should be disclosed if the benchmark return is presented net of fees and/or transaction costs? This ability to calculate net return for the benchmark was raised in the Exposure Draft of the Guidance Statement

Glossary definition "Capital Return": The portion of a TOTAL RETURN generated by realized
This definition should be improved as follows: "The portion of a TOTAL RETURN generated by

Glossary definition "Crystallization period": The period over which PERFORMANCE-BASED FEES are considered earned by the FIRM or ASSET OWNER and can no longer be reversed
This definition is not correct. The whole point of the clawback principle is that the already crystallized fee can be reversed and paid back. The payment (crystallization) schedule is the point in time when the investment manager is entitled to receive the performance fee and the fee is

Glossary definition "High-Water Mark": Last highest net asset value that a POOLED FUND or SEGREGATED ACCOUNT MUST exceed in order for the investment manager to be entitled to
This definition should be improved to read as follows: "Last highest net asset value that a POOLED FUND or SEGREGATED ACCOUNT MUST exceed in order for the investment manager to be able

Glossary definition of "Money-Weighted Return": The MONEY-WEIGHTED RETURN is the implied discount rate or effective compounded rate of return that equates the present value
This definition describes the IRR method. The Modified Dietz method (which is also a variation of MWR) would not be covered under this definition. The definition must be broadened to also cover

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Thanks in advance for considering our feedback and comments.

Sincerely yours

Swiss Funds & Asset Management Association SFAMA

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