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Basel, 31 May 2013  
A.170.4 / SLO

**Re: Guidance Statement on the Application of the GIPS Standards to Pension Funds, Endowments, Foundations, and Other Similar Entities**

Dear Sir or Madam,

We are referring to your invitation to comment on the exposure draft of the Guidance Statement on the Application of the GIPS Standards to Pension Funds, Endowments, Foundation, and Other Similar Entities and we would like to thank you for the opportunity to express our views on this new guidance.

**We strongly welcome the initiative to expand the application of the GIPS Standards to pension funds, foundations and similar entities. This step is crucial in order to extend the scope of the GIPS and to raise public awareness of the GIPS Standards. However, we believe that the current draft of the Guidance Statement is unapt to effectively attract new users of this self-regulatory standard and needs to be improved and clarified in several aspects.**

Most importantly, the strategy of the exposure draft is not obvious. It is not evident according to which criteria the different provisions were included in the document or not. The general disclaimer on page 7, stating that the Guidance Statement addresses only those provisions that need clarification and that all those which are not addressed should be assumed to be applicable, is in our view insufficient, especially as we believe that some of the addressed provisions are superfluous while other, relevant ones are currently missing in the Guidance Statement.

Just to mention some examples, we believe that there would be need for a thorough discussion on the application of provision 0.A.7 to proprietary asset owners, while provision 4.A.4 on benchmark description seems to be redundant as proprietary asset owners may well use the general provision that is already part of the GIPS. An analog reasoning applies also to provision 4.B.8.

The rationale behind the supplement to provision 3.A.10 (“No portfolio may be [...]”) seems to be unclear, especially as the explanation to provision 3.B.2 suggests that significant cash flows are relevant for proprietary asset owners. In our opinion, provision 3.A.10 should be deleted from the exposure draft.

Having said that, we believe that the section on verification (p. 18) would indeed need some further clarification and explanations as not all provisions on verification seem to be applicable one-to-one to proprietary asset owners.

As the above-mentioned sample of redundant or missing provisions is not exhaustive, we urge the Executive Committee and its relevant Subcommittees or Working Groups to **reconsider carefully each provision in the Guidance Statement in the light of its relevance and to consider including other, additional provisions that would need clarifications**. As a rule, only those provisions that are considered absolutely necessary (“need to have”) should be addressed. This strategy would lead to a lean and easy to read Guidance Statement that constitutes a complement to the GIPS Standards.

Should such a thorough reconsideration of the exposure draft lead to significant changes in the text it might become necessary to consider having a second consultation on the Guidance Statement.

Besides this fundamental concern about the strategy and granularity of the exposure draft, we would like to draw your attention to several other points that we believe need clarification. For this purpose we follow the structure of the exposure draft, including the specific questions.

### **Question 1 (p. 2)**

The term “plan sponsor” is in our opinion too narrow, as it does for example not encompass insurance companies. We would therefore prefer the broader term of “proprietary asset owners” to be used in the Guidance Statement. Furthermore, the paragraph on the target audience of the Guidance Statement should include a reference to insurers and re-insurers as potential addressees of this guidance.

### **Discretion (p. 4)**

Within the section on “discretion” (p. 4) we see some need for further clarification and discussion, especially regarding the question whether a proprietary asset owner may have non-discretionary portfolios in terms of GIPS provision 3.A.1 (e.g. current bank accounts that are not used for investment management but for payments between the plan and its beneficiaries but that are still part of the plan sponsor’s assets) or whether all assets have to be considered discretionary because of the explicit ownership of all assets under management.

### **Question 2 (p. 6)**

We agree that a proprietary asset owner has only one required composite if it has only one investment mandate. This is adequately conveyed in the text of the Guidance Statement. Concerning the possibility to create additional composites, we believe that it

should be more clearly emphasized that one single composite is only the minimum requirement and that additional composites might be useful and welcome.

### **Prospective Client / Question 3 (p. 6 f)**

Yes, the discussion of “oversight responsibility” does provide sufficient guidance. However, we believe that in addition to providing the GIPS compliant presentation to the oversight body (such as the board of trustees of a pension fund), it should be recommended to provide the presentation upon request also to the “clients”, e.g. the beneficiaries of a pension fund. This also applies to provisions 0.A.9 to 0.A.11.

### **Policies and Procedures (p. 8)**

It does not seem to make a lot of sense to require proprietary asset owners to “establish policies and procedures to ensure the existence and ownership of the assets under their management” (0.A.5) as the proprietary asset owners by definition own their assets. Please explain what such a policy would typically include.

### **Question 4 (p. 9)**

No comment.

### **Calculation Methodology (p. 10) / Question 5 (p. 15)**

No, in our opinion there is no need for additional guidance on investment management fees. However, we believe that there are two requirements missing in this context.

As the Guidance Statement addresses the presentation of the performance to an end investor and not to a prospective client, the main interest should be to show the net return after deduction of all costs. The presentation of the gross return should only be a recommendation in order to facilitate the quantification of the portfolio management costs. In our view, both net and gross returns would have to be disclosed.

The same rationale applies regarding Money Weighted Return (MWR) and Time Weighted Return (TWR). The main interest of the end investor is to see the MWR including the timing effect – even if the end investor is not responsible for the cash in- and outflows. It is the actual profit and loss that is of interest. Therefore, the presentation of the MWR should be mandatory, while the presentation of the TWR should only be a recommendation.

The importance of showing both net and gross returns as well as MWR and possibly TWR is supported by the current global discussions on enhanced transparency and the Future of Finance project of the CFA Institute.

### **Question 6 (p. 18)**

We believe that the sections on real estate and private equity (p. 17 f) would benefit from further clarifications, guidance and the inclusion of examples. The current text is in our view too general and simplistic and lacks guidance for example on the different types of investments in real estate and private equity. One type of investment that is currently not addressed could be the situation in which the proprietary asset owner acts as a general partner of a private equity company or fund (e.g. a family office investing

directly in small companies and treating these investments as venture capital or as acquisition of a company) instead of buying stocks at a stock exchange.

## **Question 7 (p. 18)**

See introductory remarks above.

### **General remarks**

We would kindly ask you to include the modifications to certain terms that have been introduced by this Guidance Statement, e.g. with respect to the definition of Investment Management Fees, into the glossary.

Furthermore, the use of terms such as “typically” (e.g. in provision 4.A.4) should absolutely be avoided, as it implies other possibilities without elaborating on them. This could lead to uncertainties and the demand for Q&As.

Again, we would like to thank you for the opportunity to comment on the exposure draft and the regard that you pay to our views. We are very interested, of course, in seeing the further development of this Guidance Statement and wish you plenty of success in finalizing this project. Please do not hesitate to contact us should you need additional information.

Yours faithfully,  
Swiss Bankers Association



Renate Schwob



Markus Staub