Dear Sir/Madam,

Thank you for the invitation to comment on the exposure draft of GIPS Guidance Statement on Benchmarks. The Securities Analysts Association of Japan, the country sponsor of the GIPS standards in Japan, is pleased to submit comments as follows:

Comments on Questions

Question 1: Do you agree that firms should be required to disclose why they have chosen an ETF rather than a market index as the composite benchmark?

As we understand that the use of third-party provided market indices or benchmarks incurs some cost which may be viewed sometimes as too expensive for some managers, firms may consider choosing an ETF as a viable benchmark for a composite strategy.

If the ETF is chosen as the benchmark, firms should be required to disclose the reasons for selecting the ETF, including the reason why this ETF but not other ETFs, as the returns of ETFs based on the traded prices include additional, extra factor i.e., investor expectation such as premium/discount over the real indices.

Also, firms using an ETF as benchmark should be required to disclose what trading and other charges are included in the ETF returns so that clients could understand the comparability of the ETF as benchmark to the returns of the composite.

Question 2: Do you agree that the ETF chosen must be one in which the returns are comparable to those of the composite?

Yes, we agree. Please also see our comments on Questions 1 above.

Question 3: Do you agree that the hedging criteria for the benchmark must be disclosed? Do you agree that it should be required that any material difference in hedging between the composite and the benchmark be disclosed?

Yes, we agree. Investment strategy the mandate of which is hedged against the base currency of the portfolio/composite presents another strategy different from the one that is not hedged. Calculating hedged returns for portfolio and benchmark may be using different methodology and/or FX rate source. So, the hedging criteria for the benchmark must be disclosed. When there are material differences in hedging between the composite and the benchmark, they must be disclosed as per 4.A.21 in the GIPS standards.

Question 4: Do you agree that firms should be required to select the benchmark that is most consistent with the withholding tax status of the portfolios in the composite?

We think that firms should be “recommended” (not “required”) to select the benchmark that is most
consistent with the withholding tax status of the portfolios in the composite because:

- In reality, portfolios with different withholding tax profiles could be in a same composite (as withholding tax is dependent on type of clients). In addition, most of portfolios have some non-reclaimable withholding taxes but in most cases the actual withholding tax rates of portfolios are lower than what index vendors adopt for calculation of net-of-withholding-tax returns. Thus it would be difficult for firms to prove that net (or gross) of withholding tax is appropriate for each composite.

- The withholding tax status may not be the highest priority for firms in selecting benchmark and countries to invest in. Although firms must disclose if benchmark returns are net of withholding taxes if this information is available, other required disclosures e.g., composite definition and/or additional/supplemental information would primarily help prospective clients to understand the composite situation with regard to withholding taxes.

**Question 5: Do you agree with the creation of custom benchmarks using fees and/or trading costs to provide returns comparable with the net-of fees and/or trading costs composite returns?**

We are not sure how to reflect trading costs as they are dependent on portfolios within the composite having different portfolio size and trading frequency/size. Moreover, it seems there might be simpler disclosure and/or reporting without losing value than presenting net of fees/trading costs benchmark which might inevitably involve complicated calculation. For instance, how about disclosing “composite incurred xx bp of trading cost (or investment management fee)” or presenting impact on return of annual trading cost/fees side by side with composite and benchmark return?

Under the current GIPS 2010 edition, however, these information and/or disclosures can be included in a composite presentation as “supplemental information” but not required for composites. So, although we do not think firms should be required to refrain from presenting benchmarks using fees and/or trading costs, when they are used, we would propose that the relevant information must be presented for both composite and benchmark, and vice versa, when the relevant information is not presented for both the composite and benchmark, firms should not be allowed to present benchmarks using fees and/or trading costs.

**Question 6: Do you agree that if a net-of-fees and/or trading costs benchmark is presented, the firm should be required to disclose the fee schedule and/or the trading costs used to derive the benchmark returns?**

Please see our comments on the Question 5 above.

**Question 7: Do you agree with the proposed treatment of price-only benchmark returns?**

As long as firms can find a total return benchmark for the composite that best represents the investment mandate, style or objectives of the composite, we agree that the total return benchmark must be used. Having said that, we presume some countries, particularly the developing markets, may not have total return market index, and so guidance to deal with the situation where there is no benchmark other than price-only benchmark should be established, as clients may request the firm to provide a comparison to price-only benchmark with some disclosures rather than no information on benchmark.

We agree with the treatment on some asset classes that do not create income (such as commodities)
as proposed in this Guidance Statement.

**Question 8:** Do you agree that if a firm changes a benchmark retroactively, the disclosure of the change should be required to be included in the compliant presentation only for as long as it is meaningful as per the firm’s policy and the disclosure can be removed once it is no longer meaningful?

Yes, we agree. We also propose that firms are recommended to make the disclosure of the change to those who have received the relevant compliant presentation before changing the benchmark of the composite retroactively.

**Question 9:** Do you agree that firms must disclose changes to benchmark ordinal (primary, secondary)?

Yes, we agree. However, we think that firms employing multiple benchmarks for a composite should be required to disclose the reason for employing multiple benchmarks, the reason for designating them as primary or secondary (if the firm designates as such), and the reason for changing benchmark ordinal (primary, secondary) to avoid any misleading presentation and from the viewpoint that investment managers could show better results by switching primary/secondary benchmark.

**Question 10:** Do you agree that firms should be allowed to present the name of the benchmark for a readily recognized index or other point of reference instead of presenting the full benchmark description?

Yes, we agree. However, when currency conversion or currency hedging is involved in calculating benchmark returns, appropriate disclosures on calculation methodology should be required even if a readily recognizable benchmark is used.

**Question 11:** Do you agree that if the firm is uncertain about whether the benchmark is readily recognized by any potential prospective client, the firm should be required to include the benchmark description?

Yes, we agree because the proposed conservative approach reflects the overarching principles of the GIPS standards, i.e., fair representation and full disclosure. It is recommended that the firm posts any other information like a link to the website which fully describes information on the benchmark, if such a link is available, so that prospective clients can access it.

**Question 12:** Do you agree that if other benchmarks are presented and labelled as supplemental information, that all of the required benchmark disclosure and presentation items should be required to be presented for all benchmarks included in the compliant presentation?

Yes, we agree. When firms include supplemental information in a compliant presentation, they should be required to explain nature of the information and purpose of presenting the information. When indexes or benchmarks other than the composite benchmark are presented in a compliant presentation as supplemental information, the same level of disclosures as required for the composite benchmark should be required for other indexes and/or benchmarks.

**Other Comments**

This Exposure Draft refers to other existing Guidance Statements including the one for the use of
Supplemental Information. As we anticipate the ongoing GIPS 20/20 project will result in presumably significant changes to current provisions, guidance and Q&As, we are not sure if the effective date of 1 January 2019 proposed for this Guidance Statement is appropriate. (Maybe this concern applies to all revision/creation work currently going on with the Guidance Statements.)

The Securities Analysts Association of Japan