



16 July 2017

GIPS 2020 SUBMISSION

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The Financial Services Council is the country sponsor for GIPS in Australia and welcomes the opportunity to make a submission to the GIPS 2020 Consultation Paper.

The Financial Services Council (FSC) has over 100 members representing Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks and licensed trustee companies. The industry is responsible for investing more than \$2.7 trillion on behalf of 13 million Australians. The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange and is the fourth largest pool of managed funds in the world.

The FSC promotes best practice for the financial services industry by setting mandatory Standards for its members and providing Guidance Notes to assist in operational efficiency.

The FSC is a strong supporter of GIPS and actively promote the standards in the Australian market. We believe the new guidance in GIPS 2020 will make the standards more relevant to our member firms and to the Australian market where take up of GIPS has been low.

Should you wish to discuss this submission further please do not hesitate to contact me on + 61 2 9299 3022 or sdix@fsc.org.au.

Yours sincerely,

Sara Dix
Policy Manager - Investment and Global Markets

GIPS 2020 Submission

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

Yes, we agree with the pillars concept – this will be a useful improvement to the GIPS Standards. We don't believe there should be any other pillars however the third pillar should be modified to accommodate asset owners who do have prospective clients. For example Australian industry superannuation funds and Master Trusts.

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

Yes, we agree with the treatment of pooled funds. Net of all fees treatment is consistent with our Performance Standard (FSC Standard 6: Investment Option Performance – Calculation of Returns, which we are currently reviewing).

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

Yes, we agree.

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?

Yes – firms should be allowed to 'choose' under clear guidance as to when each method should apply.

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

The key criteria is control of cash flows. Guidance is required for asset owners with internal portfolio management capabilities – these asset owners have control of cash flows, so IRRs may be more relevant.

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

No. Some asset owners subscribe to monthly valuation services from their custodian. However, for asset managers, daily valuations should be the standard. For listed and other liquid securities, daily is standard. Unlisted may be less frequent.

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

For IRR it should be monthly valuation frequency for listed portfolios and annual for unlisted investments.

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?

Yes.

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?

Yes.

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?

Yes, but not applicable if 6a and 6b are 'yes'.

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

Yes. We agree that firms should be allowed to disclose funds under advice as a separate category under total firm assets, which should be distinguished from assets under management.

Question 7b: Which assets should be included in the new category of assets?

This should include assets which are wholly under the advice of the firm, but not under management as well as the value of any assets that are overlaid by the firm. However, clear guidance would be required to ensure consistency (e.g. defining what constitutes assets being wholly under advice) as well as ensuring accuracy of information if data originates outside the firm.

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

Firms should be permitted, but not required to disclose funds under advice.

Question 8a: Do you agree with no longer allowing firms to exclude non-fee paying portfolios from composites based solely on fee-paying status?

Yes.

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

They should assume zero/nil fee.

Question 9: Do you agree that firms should have more flexibility to state that the firm complies with the GIPS Standards?

Yes, as long as they are compliant.

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

Yes.

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

The presentation should be released within 3-6 months of the reporting date.

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

This would be open to gaming. However it could be allowed, subject to the firm disclosing the method of deriving estimated trading expenses or make firms obtain this information from an independent third party.

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

None.

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

No.

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

No.

Question 13: Are there other issues that are important for us to address as part of GIPS 2020?

Yes. Retail separately managed accounts, and inclusion of ETFs.