20 November 2017

EXPOSURE DRAFT OF GIPS GUIDANCE STATEMENT ON OVERLAY STRATEGIES SUBMISSION

CFA Institute
Global Investment Performance Standards
Re. Guidance Statement on Overlay Strategies
915 East High Street
Charlottesville, VA 22902
USA

BY EMAIL: standards@cfainstitute.org

The Financial Services Council is the country sponsor for GIPS in Australia and welcomes the opportunity to make a submission to the GIPS Guidance Statement on Overlay Strategies.

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 this new guidance will continue to make the standards more relevant to our member firms and to the Australian market, where take up of GIPS has so far been low.

Please contact me with any questions relating to this submission on +61 2 8235 2514, or cchivers@fsc.org.au

Yours sincerely,

Catherine Chivers
Policy Manager - Investments and Global Markets

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Question 1: Are these examples regarding the determination of discretion appropriate or are additional examples or other criteria needed? If additional examples or other criteria are needed, please explain your suggestions.

Yes. We consider the examples appropriate and sufficient.

Question 2: Are the three "allowable methods" for calculating overlay exposure appropriate?

Yes. We consider the methods appropriate.

Question 3: Are there other methods for calculating overlay exposure that are also appropriate? If so, please explain.

We do not consider it necessary to define other methods. The proposed allowable methods are consistent with industry practice in the Australian market.

Question 4: Should the allowable method(s) be required or recommended by strategy type? If so, please propose a required or recommended method by strategy type.

We consider that each allowable method is applicable to any strategy type, and as such there is no need to require or recommend allowable methods by strategy type.

Question 5: Are the methods used to calculate the denominator in an overlay portfolio return calculation appropriate?

Yes. We consider the methods are appropriate.

Question 6: Is the requirement to include collateral income in the overlay portfolio return when the collateral is actively managed appropriate? If not, should this be changed to a recommendation?

Yes. We consider the requirement appropriate.

Question 7: Is the requirement to establish a composite specific policy on the treatment of collateral appropriate? If not, should this be changed to a recommendation?

Yes. We consider the requirement appropriate and recommend that treatment of collateral be mentioned specifically on page 8 (5. Composite Construction) as a criteria for defining overlay strategy composites.

Question 8: Do you agree that the returns for overlay portfolios must be geometrically linked when the overlay exposure changes over the time period? If not, please explain what method(s) you believe is appropriate.

We do not agree that returns must be geometrically linked. Regardless of whether the exposure remains constant or not, the P&L generated by the overlay is not re-invested into the underlying portfolio. We note that this response is not consistent with general industry practice in the Australian market. The calculation of multi-period performance by fund managers, custodians and other industry participants in the Australian market is to geometrically link single-period performance. As a consequence, the Australian market would require a significant transition period to allow time for software vendors and service providers reliant upon software vendors or with in-house performance analysis software to discuss the proposed methodology change with their clients and make the required coding changes.

Question 9: Do you agree that overlay returns must not be geometrically linked when the exposure remains constant, but rather the returns must be calculated as the cumulative profit/loss for the calculation period divided by the denominator? If not, please explain what method(s) you believe is appropriate.

Please see response to Question 8.

Question 10: Should text be added to this Guidance Statement recommending disclosure of the sum of (a) total firm overlay exposure and (b) total firm assets, also known as total firm economic exposure?

It is appropriate to keep these measures separate and not to be summed. The rationale is that the underlying exposure does not represent the economic exposure of the overlay manager. The underlying exposure is separate from firm assets and not "at risk" due to any investment activity of the overlay manager.

Question 11: Are the required disclosures appropriate? If not, please explain.

Yes. The required disclosures are appropriate.

Question 12: Is the proposed effective date appropriate or would additional time be needed to implement this Guidance Statement?

Based on our response to Question 8, we recommend an effective date of 1 Jan 2020.

The CFA Institute would appreciate that 2018 technology budgets for software vendors, fund managers and service providers have been finalised or are close to finalisation at the time of release of the Exposure Draft. As a consequence it is unlikely that these organisations will be able to make the relevant coding changes during 2018, taking account of the time required to communicate to clients (e.g. asset owners) of the proposed methodology changes, define and document technology requirements, complete technology builds, undertake UAT and release the coding changes into production.