

MEMO# 31403

September 25, 2018

CFA Institute Issues GIPS Exposure Draft

[31403]

September 25, 2018 TO: Accounting/Treasurers Committee
Advertising Compliance Advisory Committee
ICI Global Regulated Funds Committee
Investment Advisers Committee
SEC Rules Committee
Small Funds Committee RE: CFA Institute Issues GIPS Exposure Draft

In late August the CFA Institute^[1] issued its Exposure Draft of the 2020 Global Investment Performance Standards (GIPS®) (“exposure draft”).^[2] The exposure draft notes the 30th anniversary of GIPS, and expresses CFA Institute’s desire to “consider how the GIPS standards can be changed to achieve [our] goals and bring them to the next level in the 2020 edition of the GIPS standards.” Below we summarize how the exposure draft would affect firms’ obligations with respect to their “broad distribution pooled funds.”^[3]

ICI intends to submit a comment letter and will host a member call on October 4 at 2:00 pm ET (Dial-in: 1-888-658-9303; Passcode: 26311) to discuss the exposure draft. Comments are due to the CFA Institute by December 31, 2018.

Background

While US registered funds (among others) have very detailed requirements for reporting investment performance data, the SEC has not imposed specific requirements on how investment advisers should present investment performance data to prospective clients generally. GIPS represent CFA Institute’s attempt to establish a broadly accepted standard for calculating and presenting investment performance. GIPS are voluntary, and are binding only on those firms that claim compliance with the standards (“firms”). The version of GIPS currently in effect was adopted in 2010.^[4]

Summary of Exposure Draft’s Treatment of Broad Distribution Pooled Funds

The exposure draft devotes the first seven sections to firms’ responsibilities; the next five to asset owners’ responsibilities; and the remainder to advertising guidelines and a glossary, applicable to both firms and asset owners.^[5] The exposure draft notes that GIPS currently focuses solely on firms, although both firms and asset owners may comply. The structure is designed to permit firms and asset owners to consult only the applicable sections, rather than the entire document.

For firms, the exposure draft distinguishes between their composite^[6] reporting and pooled fund-specific reporting obligations. Thus, firms would no longer be required to maintain a composite consisting of a single pooled fund,^[7] because “[t]he pooled fund manager is not selling participation in a composite; it is selling participation in a pooled fund.”

The exposure draft further distinguishes between a firm’s reporting obligations for its limited distribution pooled funds^[8] and its broad distribution pooled funds. A firm selling participations in a limited distribution pooled fund would be required to prepare and present a GIPS pooled fund report to all pooled fund prospective investors. By contrast, a firm selling participations in a broad distribution pooled fund would not be required to prepare and present a GIPS pooled fund report to all prospective investors, but it could do so if it wished. Moreover, “[a] firm selling participation in a broad distribution pooled fund that would like to promote its claim of compliance with the GIPS standards but does not wish to prepare a GIPS Pooled Fund Report can do so in a GIPS Advertisement prepared in accordance with the GIPS Advertising Guidelines. If a firm does not wish to prepare a GIPS Pooled Fund Report or a GIPS Advertisement for a broad distribution pooled fund, it must not use the GIPS claim of compliance in materials for that broad distribution pooled fund.”^[9] The exposure draft contains detailed advertising requirements and recommendations for broad distribution pooled funds (Section 13.G and H), but these would be triggered only if the firm chooses to claim compliance with GIPS in a GIPS advertisement.

Finally, a firm that manages broad distribution pooled funds would be required to (i) maintain a list of such funds and provide it upon request, and (ii) provide the description of any broad distribution pooled fund upon request. And firms’ composite and pooled fund reports would be required to disclose that their lists of broad distribution pooled funds would be available upon request.

The adoption of the revised standards is expected occur in the middle of 2019; the expected effective date of the revised standards is expected to be January 1, 2020.

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endnotes

^[1] The CFA Institute is a global not-for-profit association of investment professionals that maintains Global Investment Performance Standards (“GIPS”) for calculating and presenting investment performance.

^[2] Available at www.gipsstandards.org/standards/Documents/gips_2020_exposure_draft.pdf.

^[3] A “broad distribution pooled fund” would be defined as “[a] pooled fund that is publicly available to multiple investors, for which the typical marketing practice involves no or minimal personal contact between the firm managing the pooled fund and the pooled fund prospective investor. These funds are typically sold to the general public and are highly regulated.”

[4] Available at www.cfainstitute.org/ethics/codes/gips-code.

[5] An “asset owner” would be defined in relevant part as “[a]n entity that manages investments, directly and/or through the use of external managers, on behalf of participants, beneficiaries, or the organization itself. These entities include, but are not limited to, public and private pension funds, endowments, foundations, family offices, provident funds, insurers and reinsurers, sovereign wealth funds, and fiduciaries.”

[6] A “composite” would be defined as “[a]n aggregation of one or more portfolios or total funds that are managed according to a similar investment mandate, objective, or strategy.”

[7] A “pooled fund” would be defined as “[a] fund whose ownership interests may be held by more than one investor.”

[8] A “limited distribution pooled fund” would be defined in relevant part as “[a] pooled fund that is not publicly available to multiple investors and for which the typical marketing practice involves contact between the firm managing the pooled fund and the pooled fund prospective investor.”

[9] Exposure draft at 5.