

MEMO# 31533

December 21, 2018

ICI Comments on CFA Institute's GIPS Exposure Draft

[31533]

December 21, 2018 TO: ICI Members

ICI Global Members SUBJECTS: Advertising

Compliance

Disclosure

Fund Accounting & Financial Reporting

International/Global

Investment Advisers RE: ICI Comments on CFA Institute's GIPS Exposure Draft

In late August the CFA Institute[\[1\]](#) issued its Exposure Draft of the 2020 Global Investment Performance Standards (GIPS®) ("Exposure Draft").[\[2\]](#) Today, ICI submitted the attached comment letter, strongly supporting the Draft's treatment of broad distribution pooled funds and offering comments to further improve the standards as they would apply to these funds.

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

The Exposure Draft would impose on firms distinct composite[\[3\]](#) and pooled fund-specific reporting obligations. The Exposure Draft further distinguishes between a firm's pooled fund-specific reporting obligations, depending on fund type (*i.e.*, limited distribution pooled funds and broad distribution pooled funds). Firms would prepare and present a GIPS pooled fund report to all prospective investors of limited distribution pooled funds only.

The Exposure Draft's detailed advertising requirements and recommendations for broad distribution pooled funds apply only if a firm claims compliance with GIPS in a GIPS advertisement. In other words,

"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."[\[4\]](#)

Summary of ICI's Comment Letter

ICI's letter comments only on the Exposure Draft's treatment of broad distribution pooled funds and their sponsoring firms. We strongly support the Exposure Draft's permissive approach to broad distribution pooled funds, under which firms *may* prepare and present a GIPS pooled fund report to prospective investors, and must follow the proposed advertising requirements *only if* the advertisements claim firm compliance with GIPS. This is appropriate because broad distribution pooled funds already are highly regulated.

We also:

- recommend changes to the proposed “broad distribution pooled fund” definition to better achieve the framework’s intent;[\[5\]](#) and
- comment on the proposed requirements for firms to maintain and distribute lists of their broad distribution pooled funds.[\[6\]](#)

Matthew Thornton
Assistant General Counsel

[Attachment](#)

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. 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.

[\[2\]](#) Available at www.gipsstandards.org/standards/Documents/gips_2020_exposure_draft.pdf. See Memorandum to Members [No. 31403](#), dated September 25, 2018, for a detailed summary of the Exposure Draft's treatment of broad distribution pooled funds and additional background.

[\[3\]](#) A composite is an aggregation of one or more portfolios or funds that are managed according to a similar investment mandate, objective, or strategy.

[\[4\]](#) Exposure Draft at 5.

[\[5\]](#) The Exposure Draft defines “broad distribution pooled fund” as follows: “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.” We recommend a more streamlined definition that focuses only on a fund’s regulatory status.

[\[6\]](#) A firm that manages broad distribution pooled funds would be required to: (i) maintain a list of such funds, and include terminated funds for at least five years; (ii) provide the

complete list of “appropriate” funds, along with their descriptions, upon the prospective investor’s request; and (iii) disclose in its composite and pooled fund reports that its list of broad distribution pooled funds would be available upon request. We recommend elimination of these requirements. Barring that, we recommend targeted changes (e.g., deletion of the terminated funds provision and the term “appropriate”).

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.