

MEMO# 31839

July 8, 2019

CFA Institute Publishes Its Final 2020 GIPS Standards

[31839]

July 8, 2019 TO: ICI Members

ICI Global Members SUBJECTS: Advertising

Compliance

Disclosure

Fund Accounting & Financial Reporting

International/Global

Investment Advisers RE: CFA Institute Publishes Its Final 2020 GIPS Standards

The CFA Institute[\[1\]](#) has issued its 2020 Global Investment Performance Standards (GIPS®) for firms, asset owners, and verifiers.[\[2\]](#) Below we provide general background and summarize how the updated standards will affect firms' obligations with respect to their broad distribution pooled funds.[\[3\]](#)

Background

While US registered funds (among others) have 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 broadly accepted standards 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, and in 2018 the CFA Institute proposed an exposure draft of updated standards for 2020. After objecting to the treatment of broad distribution pooled funds in proposed and final guidance in 2016 and 2017, ICI generally supported the exposure draft's treatment of broad distribution pooled funds and recommended further improvements.[\[4\]](#)

Broad Distribution Pooled Funds' Treatment under the Revised Standards

Whereas the 2010 standards focus on firms, the revised 2020 standards consist of three separate documents directed at firms, asset owners, and verifiers.[\[5\]](#) For firms, the revised standards set forth fundamentals of compliance, input data and calculation methodology, and maintenance; distinguish between composite[\[6\]](#) and pooled fund-specific reporting; include advertising guidelines; and conclude with a glossary and appendices with sample

reports, advertisements, and lists. Because of the distinction between composite and pooled fund-specific reporting, firms will no longer be required to maintain a composite consisting of a single pooled fund,^[7] although a pooled fund must be included in any composite for which the pooled fund meets the composite description.

The standards further distinguish between limited distribution pooled funds^[8] and broad distribution pooled funds, with a firm's responsibilities for each differing. In response to comments from ICI and others, the final definition of "broad distribution pooled fund" has been streamlined.^[9] A firm offering a limited distribution pooled fund must either prepare and present a pooled fund report to the fund's prospective investors, or provide a composite report that includes that fund. By contrast, a firm offering a broad distribution pooled fund firm may provide a pooled fund report or a composite report that includes that fund to prospective investors, but is not required to do either. The standards also contain detailed advertising requirements and recommendations for broad distribution pooled funds (Section 8), but these are triggered only if the firm chooses to claim compliance with GIPS in a GIPS advertisement.

Finally, a firm that manages broad distribution pooled funds must maintain a list of such funds and provide the list and descriptions of such funds upon request. And firms' composite and pooled fund reports must disclose that their lists of broad distribution pooled funds are available upon request. However, in response to comments from ICI and others, these listing requirements have been eased in certain respects.^[10]

Effective Date

The updated 2020 standards are effective as of January 1, 2020. GIPS reports that include performance for periods ending on or after December 31, 2020 must be prepared in accordance with the 2020 standards, and reports that include returns for periods ending prior to December 31, 2020 may be prepared in accordance with the 2010 standards.

The CFA Institute also has promised to issue upon completion a "handbook" of explanations for the 2020 provisions.

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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.cfainstitute.org/-/media/documents/code/gips/2020-gips-standards-firms.ashx, www.cfainstitute.org/-/media/documents/code/gips/2020-gips-standards-asset-owners.ashx, and www.cfainstitute.org/-/media/documents/code/gips/2020-gips-standards-verifiers.ashx, respectively.

^[3] A "broad distribution pooled fund" is defined as "[a] pooled fund that is regulated under a framework that would permit the general public to purchase or hold the pooled fund's shares and is not exclusively offered in one-on-one presentations."

^[4] ICI's comment letter is available at

[5] The standards define “asset owner” 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. Asset owners must have discretion over total asset owner assets, either by managing assets directly or by having the discretion to hire and fire external managers.” The standards describe “verification” as “a process by which a verification firm (verifier) conducts testing of a firm on a firm-wide basis, or an asset owner on an asset owner-wide basis, in accordance with the required verification procedures of the GIPS standards.”

[6] A “composite” is defined as “[a]n aggregation of one or more portfolios that are managed according to a similar investment mandate, objective, or strategy.” A “portfolio” may be a segregated account or a pooled fund.

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

[8] A “limited distribution pooled fund” is defined as “[a]ny pooled fund that is not a broad distribution pooled fund.”

[9] ICI recommended that this definition focus on a fund’s regulatory framework and eliminate the proposed definition’s marketing and distribution components. To a large degree, the final definition does so. *See supra*, note 3.

[10] Unlike the exposure draft, the final standards do not require these lists to include terminated funds. The final standards also permit firms to: (i) satisfy these listing requirements by maintaining their lists on websites and directing prospective investors to them; and (ii) tailor their lists by including only those funds for which the prospective investor is eligible to invest.