GIPS® 20/20 Consultation Paper Webinar
Our Vision for the Future of the GIPS Standards

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CFA Institute
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GIPS MISSION STATEMENT

Promote ethics and integrity and instill trust through the use of the Global Investment Performance Standards by achieving:

• universal demand for compliance by asset owners,
• universal adoption by asset managers, and
• universal support from regulators

for the ultimate benefit of the global investment community.
THE GIPS STANDARDS ARE A SUCCESS

• Worldwide Adoption
  - 40 countries have endorsed the GIPS standards
  - 18 countries are considering endorsing the GIPS standards
  - No competing standard
• 1608 firms have notified CFA Institute of their claim of compliance in 2016
• 85 of the top 100 global asset management firms claimed compliance for some or all of their business as of 31 December 2015 (Cerulli Associates)
• 24 of the top 25 global asset management firms claimed compliance for some or all of their business as of 31 December 2015 (Cerulli Associates)
• Despite this success “Universal Adoption” requires further evolution
REIMAGINING THE GIPS STANDARDS

• Why change the GIPS standards?
  - Composites are the foundation of the GIPS standards, but composites are not appropriate for all investment products.
  - Pooled funds, in particular, do not fit neatly into the current composite-oriented framework.
  - Cannot achieve our mission with the GIPS standards as currently structured.
  - Will allow for greater adoption of the GIPS standards by product-oriented firms including managers of alternative assets as well as firms in jurisdictions dominated by pooled funds.
  - Allows us to expand the use of internal rates of return (IRR) vs. time-weighted rates of return (TWRR)
  - Challenge is to recast the GIPS standards while maintaining their integrity and cohesiveness.
CONSULTATION PAPER

• Why issue a GIPS 20/20 Consultation Paper?
  - This is the first time where we are proposing to fundamentally change the GIPS standards
  - We need to know if we are on the right track
  - We want to get your feedback on our ideas
  - Your feedback will help shape the GIPS 2020 Exposure Draft
• These are your standards - please take the time to comment
RESTRUCTURING THE GIPS STANDARDS

• Relationship between the party presenting performance and the recipient of the performance is the defining criterion

• The party presenting performance can be:
  - A firm
  - An asset owner

• The party receiving performance can be:
  - A prospective client
  - A prospective pooled fund investor
  - An oversight board
THREE PILLARS

• One to one
  - Investment manager has an individual relationship with the client
  - Client has the ability to influence the management of the portfolio
  - Composite performance is appropriate

• One to many
  - Investment manager is selling participation in a specific pooled fund
  - Fund performance is appropriate

• One to none
  - There are no prospective clients
  - Appropriate for asset owners
  - Composite performance is appropriate
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Total Firm Assets

- **Strategy**
  - Separate Accounts
    - Customized
    - Client Specific
    - Client Input

- **Product**
  - Pooled Funds
    - Standardized
    - WYSIWYG
    - Client Agnostic
    - No Client Input
    - Regulated/Unregulated

- **Proprietary**
  - Asset Owner
    - Proprietary Assets
    - No “Clients”
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- **Strategy**
  - Separate Accounts
  - Existing Composite Rules and Guidance

- **Product**
  - Pooled Funds
  - New Pooled Funds Rules and Guidance

- **Proprietary**
  - Asset Owner
  - Asset Owner Guidance Statement

*Universal Disclosures and Presentation Provisions*
- Composite Specific Disclosures and Presentation Provisions
- Pooled Funds Specific Disclosures and Presentation Provisions
- Asset Owner Specific Disclosures and Presentation Provisions
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New Pooled Funds Rules and Guidance

Open-end (TWR)

Closed-end (IRR)

Valuation

Liquid
Illiquid
Liquid
Illiquid

Fixed-Life
Fixed-Commitment Draw-Down Capital
POOLED FUNDS VERSUS COMPOSITES

• Currently firms are required to make every reasonable effort to provide a compliant presentation to all prospective clients
• Firms will still be required to do so when they are marketing a composite strategy
• However, when marketing a fund to prospective investors in that fund, we are proposing that firms would be required to provide a “pooled fund report”
• A pooled fund report would include only the pooled fund’s information
• We are proposing that pooled fund returns must be net of all fees and expenses
  - This reflects the pooled fund client experience
• Other fund-specific information required to be included in a pooled fund report to be determined
POOLED FUNDS VERSUS COMPOSITES

• Pooled funds would still be required to be included in the appropriate composite if they meet the composite definition

• However, composites that include only a single pooled fund would no longer be required

• Firms would be required to create a list of all composite and pooled fund descriptions

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ASSET-CLASS-SPECIFIC GUIDANCE

• Currently there is specific guidance for:
  - Private equity
  - Real estate
  - Alternative investment strategies and structures
  - Wrap fee/separately managed account (SMA) portfolios

• We plan to reduce the number of asset-class-specific requirements wherever possible
  - E.g. there is much overlap between private equity and real estate closed-end fund requirements, with minimal differences
TWRR VS IRR

- Currently time-weighted rates of return (TWRR) are required for all composites except private equity
  - Internal rates of return (IRR) are required for private equity composites
  - Closed-end real estate funds must present both TWRRs and IRRs
- Instead of basing the required returns on the underlying investments in the portfolio, we propose basing the returns on the portfolio structure
- TWRRs would be required for:
  - Open-end funds
  - Composites with individual portfolios
- TWRRs or IRRs would be allowed for:
  - Closed-end, fixed life, fixed commitment funds, where the firm controls the cash flows
VALUATION FREQUENCY

• For time-weighted rates of return (TWRR), no change proposed
  - Assuming a firm does not value portfolios daily, must value portfolios:
    - Monthly, and
    - At the time of large cash flows

• For internal rates of return (IRR), we are proposing that portfolios would be required to be valued:
  - Annually
  - Whenever performance is calculated and reported to prospective clients or prospective fund investors
DISTRIBUTION OF REPORTS

• Currently firms are required to make every reasonable effort to provide a compliant presentation to all prospective clients
• No GIPS-compliant information is required to be provided to existing clients
• We believe that existing clients and pooled fund clients would benefit from receiving current GIPS-compliant information
  - Either composite information or fund information
• We are considering two approaches:
  - Requiring firms to make every reasonable effort to provide the composite compliant presentation or pooled fund report to existing clients/fund investors on an annual basis; or
  - Requiring firms to make an offer to provide the composite compliant presentation or pooled fund report to existing clients/fund investors on an annual basis
TOTAL FIRM ASSETS

• Advisory assets continue to become a larger part of the investment management industry
  - E.g., model portfolios, advisory-only portfolios, and unified managed accounts
• These advisory assets are not included in GIPS total firm assets
• Underlying portfolios in overlay strategies are also excluded from GIPS total firm assets
• We are considering how these advisory assets may or should be included in compliant presentations
  - Should there be a new category of assets that includes assets managed, advised, and overlaid
  - Should this new category of assets be required or recommended to be included in compliant presentations
NON-FEE-PAYING PORTFOLIOS

• Currently firms may choose to exclude non-fee-paying portfolios from composites
  - Only actual, fee-paying, discretionary portfolios must be included in a composite
• We are considering removing the fee-paying criterion
• Firms would be required to include all actual, discretionary portfolios in a composite, prospectively
REFERENCES TO THE FIRM’S CLAIM OF COMPLIANCE

• Currently firms can state that they claim compliance with the GIPS standards in only three ways:
  - In a compliant presentation
  - In an advertisement prepared in accordance with the GIPS Advertising Guidelines
  - In a GIPS Pooled Fund Claim of Compliance that is included in the official pooled fund document or fund-specific marketing material for a broadly distributed pooled fund
• We are considering expanding beyond these three options how firms can state that they are in compliance
• We believe this would help to increase awareness of the GIPS standards
TIMELINESS OF COMPLIANT PRESENTATIONS

• Firms must make every reasonable effort to provide a compliant presentation to all prospective clients

• Currently there is no guidance on the timeliness of the information that is included in the compliant presentation
  - Is it acceptable to include information that has not been updated for several years?

• We are considering requiring firms to provide compliant presentations that include more current performance
ESTIMATED TRADING EXPENSES

• Currently all returns must be calculated after the deduction of actual trading expenses
  - Estimated trading expenses are not allowed
• Due to changes in the way trading expenses might be charged, and to facilitate removing asset-class specific guidance, we are considering allowing firms to use estimated trading expenses
  - But would be allowed only if returns calculated using estimated trading expenses are equal to or lower than those that would have been calculated if actual trading expenses had been used
REQUIRED INFORMATION IN COMPLIANT PRESENTATIONS

• Compliant presentations must include required numerical information and disclosures

• We hope to eliminate any required items that are not particularly helpful or informative

• We also are considering if any required disclosures should be allowed to be removed after a specific period of time because they are no longer relevant

• Currently only two required disclosures have “sunset” dates
  - Composite name change can be removed after one year
  - Disclosure of a material error is required for only one year after the date of the error
GENERAL

- We are looking for feedback about other topics that should be addressed as part of the GIPS 20/20 project
  - Carve-outs?
  - Outsourced CIOs?
  - Private wealth?
  - Other?
PUBLIC COMMENT PERIOD

• Your input will shape the GIPS 20/20 Exposure Draft
  - Exposure Draft expected to be issued early in 2018
  - Final 2020 edition of the GIPS standards expected to be issued early in 2019

• Please provide your comments by 16 July 2017.
  - We are asking for your input
  - Your thoughts matter
  - We need to hear from you