

## **Annual GIPS Standards Conference Is Going Virtual**

We are sad to announce that CFA Institute has made the decision to cancel the in-person 24th Annual Global Investment Performance Standards (GIPS<sup>®</sup>) Conference, which was scheduled for 28—29 October 2020 at the Fairmont Chicago, Millennium Park in Chicago. The health and safety of our speakers, delegates, volunteers, and staff are our top priority. With the unfolding situation related to COVID-19 and future uncertainty, we felt this was the decision that had to be made. In the weeks ahead, we will explore options for delivering GIPS standards-focused educational sessions to the GIPS standards community online. These events will be announced in future editions of the GIPS Standards Newsletter.

## **Annual GIPS Compliance Notification Form Deadline Is 30 June 2020**

Firms and asset owners that claim compliance with the GIPS standards are required to notify CFA Institute of their claim of compliance. There are different procedures depending on whether the firm/asset owner is submitting the notification form for the first time (New Claim of Compliance) or is submitting an annual update (Returning Firm/Asset Owner). Firms/asset owners that are newly claiming compliance must submit the GIPS Compliance Notification Form prior to publicly claiming compliance. Once a firm/asset owner claims compliance, it must submit an updated GIPS Compliance Notification Form annually, by 30 June of each year. The only required information is the name of the firm/asset owner, contact details for a primary and secondary contact, and whether or not the firm/asset owner has been verified within the past 24 months. Other questions, including types of assets managed and total firm assets, are optional. All information provided must be as of the most recent 31 December.

Firms/asset owners filing a New Claim of Compliance should use the [New Claim of Compliance link](#); returning firms/asset owners should use the [Returning Firm/Asset Owner link](#).

To begin the renewal process, you must include the firm/asset owner name, as well as the first and last name and email of either the primary or secondary contact included in the prior year's filing. If you get the message, "We need more information. We could not find a match in our records. The information you enter must match the information provided when this firm claimed compliance," it is likely because your firm/asset owner name or contact information does not match exactly what was included in the last filing. For example, if in the last filing you used "Inc" as part of your firm/asset owner name, but this time you use "Inc.", you will get the error message. If this happens, please send us an email at [gipscompliance@cfainstitute.org](mailto:gipscompliance@cfainstitute.org) with your firm/asset owner name and contact information and we will help resolve the problem.

If your firm/asset owner has merged, your two contacts have left the firm/asset owner, or you have any other questions, please send us an email at [gipscompliance@cfainstitute.org](mailto:gipscompliance@cfainstitute.org). We are standing by ready to assist you.

### **Asset Manager Code Compliance Notification Deadline Is 30 June 2020**

Many organizations that claim compliance with the GIPS standards also claim compliance with the Asset Manager Code (AMC). Earlier this year CFA Institute made a change to require organizations that claim compliance with the AMC to notify CFA Institute annually, similar to the GIPS standards annual notification process. Notification forms are due 30 June 2020.

Firms and asset owners can notify CFA Institute of their compliance with the AMC by submitting the form located on the [CFA Institute website](#). If you have any questions about the submission process please email us at [industrystandards@cfainstitute.org](mailto:industrystandards@cfainstitute.org).

### **Performance Reporting in the COVID-19 Era**

Firms that claim compliance with the GIPS standards are required to make every reasonable effort to provide a GIPS Report to all prospective clients and prospective investors. A GIPS Report is a presentation for a composite or a pooled fund that includes all of the information required by the GIPS standards. While it is recommended that firms update GIPS Reports either monthly or quarterly, it is not common practice to do so. Many firms update GIPS Reports annually, which is what firms are required to do. It is also common practice for firms to include annual time-weighted returns, or since inception money-weighted returns, through the most recent calendar year end. Many firms are therefore currently using GIPS Reports that include performance through 31 December 2019. Given events of the past few months, should firms consider updating GIPS Reports, and what should be updated?

It doesn't need to be said that the GIPS standards do not include guidance for how a firm should report performance in response to a pandemic. However, the GIPS standards do include the concept of a significant event. Significant events must be disclosed in GIPS Reports to provide relevant information to prospects so that they can understand the potential effect of the significant event on the composite's or pooled fund's investment strategy and on the firm. Significant events are determined by the firm and would include, as examples, a material change in personnel responsible for investment management, significant changes to the investment management process, or a change in firm ownership. Firms are also required to disclose either the composite or the pooled fund's description. These descriptions are general information regarding the investment mandate, objective, or strategy of the composite or pooled fund, and must include enough information to allow a prospect to understand the key characteristics of the investment mandate, objective, or strategy, including:

- The material risks of the strategy;
- How leverage, derivatives, and short positions may be used, if they are a material part of the strategy; and

- If illiquid investments are a material part of the strategy.

We think it is safe to assume that every firm, and every composite or pooled fund, has been affected by the pandemic. Even though firms are not required to update GIPS Reports mid-year, we believe that all firms should review their GIPS Reports and determine whether any modifications are needed to composite or pooled fund descriptions, or if significant event disclosure language should be added to address changes that may have been implemented due to the pandemic. Firms should also consider including year-to-date performance in GIPS Reports, to show how the strategy is performing during the pandemic. These unique circumstances call for reconsideration of a firm's policies with respect to performance presentation.

## **Tools and Resources**

We continue to add tools and resources to assist with implementing the 2020 edition of the GIPS standards. You can find these under "Tools and Resources" for both firms and asset owners. We have recently added the following items:

- Explanation of the Provisions in Section 7 of the GIPS standards,
- A link to Amazon where a paperback copy of the Explanation of the Provisions in Section 7 can be purchased (link is pending—Amazon is busy these days!),
- The Guidance Statement on Verifier Independence Adopting Release, and
- Explanation of the Provisions in Section 31 of the GIPS Standards for FMPs.

## **Dear GIPS Standards Help Desk**

This month's Help Desk question asks about how to treat pooled fund administrative expenses for pooled funds that are included in composites.

Question: With respect to pooled funds and inclusion in composites with segregated accounts, I would like some clarity on the treatment of other expenses (administrative expenses) that the pooled fund incurs and how those are recorded for performance purposes. In the 2010 edition of the GIPS standards, per Provisions 4.A.5 and 4.A.6, it was indicated that both gross-of-fees and net-of-fees returns could be presented net of other expenses, including custody fees, as long as there is proper disclosure. Under the 2020 edition of the GIPS standards, when pooled funds are included in a composite with segregated accounts, is it acceptable to deduct other fees, like administrative fees, for gross-of-fees returns, with appropriate disclosure?

Answer: Pooled funds that are included in a composite are treated like any other portfolio. Gross-of-fees returns for a pooled fund must reflect the deduction of any transaction costs. Assuming composite net-of-fees returns are calculated at the portfolio level, for composite calculation purposes the net-of-fees return for a pooled fund must reflect the deduction of any transaction costs and investment management fees. Firms are not required to deduct other administration expenses, including custody fees, when calculating gross-of-fees returns or net-of-fees returns for the pooled fund for composite calculation purposes, but may do so. If the composite gross-of-fees returns reflect the

deduction of any fees beyond transaction costs, this must be disclosed (see Provision 4.C.6). If net-of-fees returns reflect the deduction of any other fees beyond investment management fees and transaction costs, this must be disclosed (see Provision 4.C.7.a). This is different from calculating net returns for the pooled fund when the pooled fund's performance is reported in a GIPS Pooled Fund Report. Pooled fund net returns included in a GIPS Pooled Fund Report must reflect the deduction of any transaction costs, investment management fees, and administrative expenses.

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