

# GIPS® STANDARDS NEWSLETTER



## July 2021 Edition

### **US Investment Performance Committee Net Returns Survey**

The US Investment Performance Committee (USIPC), the US Sponsor of the Global Investment Performance Standards (GIPS®), is conducting a survey of US-based firms regarding the treatment of fees when calculating and presenting net returns. The purpose of this survey is to learn how firms calculate net returns, whether there are common practices for doing so, and whether firm size affects these practices. If your firm is based in the United States, we would greatly appreciate your participation in this [survey](#). The survey should take no more than 15 minutes to complete.

Please note that the information submitted through this survey will be kept confidential. We will use this data for statistical purposes only.

### **References to the GIPS Standards for Financial Industry Regulatory Authority's (FINRA's) Regulatory Notice 20-21**

In the March 2021 edition of the GIPS Standards Newsletter, CFA Institute staff addressed questions about how firms can calculate internal rates of return (IRRs) that are consistent with the GIPS standards in order to comply with FINRA Regulatory Notice 20-21. Since then, many firms have asked whether they can state that they meet the calculation requirements of the GIPS standards when preparing materials concerning a private placement offering when those materials are prepared in accordance with FINRA Regulatory Notice 20-21.

The GIPS standards do not allow statements indicating partial compliance with the GIPS standards (Provision 1.A.8) or referring to the calculation methodology as being “in accordance,” “in compliance,” or “consistent” with the GIPS standards (Provision 1.A.9).

The purpose of these requirements is to avoid confusion for investors who would then have the burden of determining which firms are properly claiming compliance and which firms are not. Without boundaries on specific statements that can be made, an investor could be misled.

The GIPS Standards Technical Committee has made an exception to Provisions 1.A.8

and 1.A.9, and will allow firms and their agents to make a specific statement regarding the GIPS standards in retail communications concerning private placement offerings that are prepared in accordance with FINRA Regulatory Notice 20-21.

Several resources have been created to help firms determine how they can refer to the GIPS standards, which returns and metrics are required by the GIPS standards, and how to calculate IRRs and fund metrics according to the GIPS standards calculation requirements. These resources include the following:

- A Q&A explaining how firms can refer to the GIPS standards and what is required to make such a statement. See the [GIPS Standards Q&A Database](#), select Firm as the organization type, and select the category FINRA.
- A [video](#) that explains how to calculate IRRs and fund metrics according to the GIPS standards calculation requirements.
- A [memo](#) that includes the same information included in the Q&A. This memo is intended for those firms that do not comply with the GIPS standards and are not familiar with the GIPS standards Q&A Database.
- A checklist (named CFA Institute Checklist for FINRA Reg Notice 20-21 and the GIPS Standards) that can be used to determine whether the IRR and fund calculations are consistent with the GIPS standards requirements. This checklist can be found under the Firms section of the [Tools webpage](#) of the GIPS standards website.

### **Fourteen New Q&As Issued**

Fourteen new Q&As have been posted in the [GIPS Standards Q&A Database](#). Some of the new Q&As are a result of archiving guidance statements from the 2010 edition of the GIPS standards. Other new Q&As are from the GIPS Standards Help Desk.

Please note that the Q&A Database now has a search criterion for organization type. Options are Firm, Asset Owner, or All.

Topics addressed by these new Q&As, including the Q&A Database categories in which they can be found, are as follows:

1. A key investment decision maker leaves a firm after a track record is ported (Category: Portability)
2. Calculating gross-of-fees returns and net-of-fees returns for a master-feeder fund structure when all fees are charged at the feeder fund level (Categories: Alternative Investments, Pooled Funds)
3. Determining which master or feeder fund returns to include in a composite or in a GIPS Pooled Fund Report (Categories: Alternative Investments, Pooled Funds)
4. Calculating performance when investments become illiquid (Categories: Calculation

Methodology, Valuation)

5. Composite inclusion for segregated accounts that have client-restricted securities (e.g., low-cost basis stocks, held-to-maturity securities) (Categories: Composite Construction, Discretion)
6. Presenting performance for periods with currency conversion to the euro (Category: Currency Conversion)
7. Disclosure of broad distribution pooled fund fee schedules in GIPS Composite Reports (Categories: Disclosures, Pooled Funds)
8. “Grossing up” a pooled fund’s NAV-based returns to calculate gross-of-fees returns (Categories: Calculation Methodology, Pooled Funds)
9. Treatment of pooled fund administrative expenses when calculating composite returns (Categories: Calculation Methodology, Pooled Funds)
10. Whether a pooled fund with quarterly openings equates to the firm controlling the cash flows (Category: Pooled Funds)
11. When assets are sub-advised, whether both a firm and a sub-advisor can count the sub-advised assets and performance as their own (Category: Sub-Advised Assets)
12. When an external manager is used, whether both an asset owner and an external manager can count the externally managed assets and performance as their own (Category: Total Asset Owner Assets)
13. Disclosing fee schedules and expense ratios for pooled funds included in composites (Categories: Disclosures, Pooled Funds)
14. Determining if an investment cash fund qualifies as a total fund (Category: Total Fund Definition)

### **Tools and Resources for Asset Owners**

We continue to add tools and other resources to assist organizations with understanding and implementing the 2020 edition of the GIPS standards. You can find all of this information under “Resources” on the [Tools webpage](#). Within the Tools webpage, firms, asset owners, verifiers, and fiduciary management providers can find the “Tools” specific to their type of organization. We recently added two documents for asset owners.

Asset owners considering claiming compliance with the GIPS standards may need assistance when determining their readiness for embarking on this project. [Assistance to Asset Owners Claiming Compliance with the GIPS® Standards](#) provides asset owners with such a resource. This paper offers background information and education about the GIPS standards and also explains how to identify resources that are needed,

determine the scope of the compliance project, obtain management buy-in, consider education and communications needs, create policies and procedures, and more.

We also added a [Sample Error Correction Policy for Asset Owners](#). This error correction policy sample can be used to assist asset owners with creating policies and procedures for handling errors in GIPS Asset Owner Reports.

### **Exposure Draft of the Verification Procedures for the ESG Disclosure Standards for Investment Products: We Want to Hear from You**

On 21 July 2021, CFA Institute released the [Exposure Draft of the Verification Procedures for the ESG Disclosure Standards for Investment Products](#). The goal of the Exposure Draft is to elicit feedback on the verification procedures and verifier independence guidelines. Comment letters from the public will help shape the first edition of these procedures and the verifier independence guidelines. To comment, please use the [response form](#) and submit it to [standards@cfainstitute.org](mailto:standards@cfainstitute.org) by 21 September 2021.