October 2021 Edition

Join Us Next Week! 25th Annual Global Investment Performance Standards (GIPS®) Virtual Conference

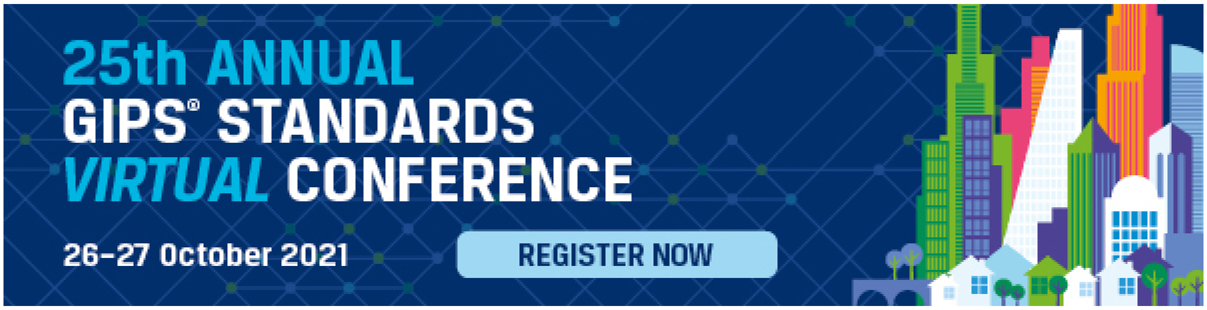
Don’t miss the industry’s leading event for performance and compliance professionals! Register now for the **25th Annual GIPS® Standards Virtual Conference**.

- Learn about recently updated GIPS standards technical guidance, including new Q&As and guidance statements, carve-out calculations, and Financial Industry Regulatory Authority (FINRA) Regulatory Notice 20-21 requirements, with speakers Dimitri Senik, CFA, PwC, and Karyn D. Vincent, CFA, CIPM, CFA Institute.
- Prepare for the new SEC Marketing Rule and learn how it affects GIPS-compliant firms, with speakers Krista Harvey, CFA, CIPM, CFA Institute; Sanjay Lamba, Investment Adviser Association; and Michael McGrath, CFA, K&L Gates.
- Hear expert analysis on the latest developments with environmental, social and governance (ESG) reporting. Panelists Emily Chew, Calvert Research and Management; Brian Minns, CFA, Pension Plan Ontario; Jason Mitchell, Man Group; and Chris Fidler, CFA Institute, will discuss the challenges of understanding how and why ESG information and issues are considered in investment products and how these challenges can be addressed through disclosure standards.
- Learn about the latest trends with databases and data collection with speakers John Molesphini, Nasdaq Investment Intelligence; Neil Prunier, Institutional Limited Partners Association (ILPA); Kathryn Gernert, Permanent School Fund Texas Education Agency; and Ken Robinson, CFA, CIPM, CFA Institute.

These are just some of the sessions. Check out the full agenda **here**. Registration includes your virtual event pass, online social opportunities with peers, and access to on-demand session recordings for 90 days.

Attendees will earn up to 9 Professional Learning credits, including 6 Standards, Ethics, and Regulation credits, as well as 9.4 National Association of Accountancy Continuing Professional Education credits.

This conference provides the opportunity to develop new relationships and strengthen existing connections with peers across the industry. You don't want to miss it.



Update on Financial Industry Regulatory Authority (FINRA) Regulatory Notice 20-21

The March 2021 and July 2021 editions of the GIPS Standards Newsletter addressed the release of FINRA **Regulatory Notice 20-21**. FINRA is the government-authorized, not-for-profit organization that oversees US broker/dealers. Regulatory Notice 20-21 allows retail communications for a private placement offering to include internal rates of return (IRRs) for funds that are ongoing (i.e., have not fully liquidated) only if the IRR is calculated in a manner consistent with the GIPS standards and the communication also includes additional metrics required by the GIPS standards.

On 30 September 2021, FINRA released several FAQs regarding Regulatory Notice 20-21. Here are key concepts from these FAQs:

- Firms are not required to claim compliance with the GIPS standards in order to use an IRR in private placement communications in a manner that is consistent with the requirements of FINRA Rule 2210.
- The requirement to present an IRR calculated in a "manner consistent with the GIPS standards" applies only to investment programs with ongoing operations that include a combination of realized and unrealized holdings.
- The requirement to calculate an IRR in a "manner consistent with the GIPS standards" refers to using the same primary inputs (i.e., external cash flows and terminal value) and calculation methodology (e.g., IRR) articulated in the GIPS standards as well as including prominently the additional required metrics set forth by the GIPS standards.
- Although the GIPS standards generally prohibit firms from making any statement referring to the calculation methodology as being "in accordance," "in compliance," or "consistent" with the GIPS standards, CFA Institute has created a limited exception for firms and their agents in retail communications concerning private placement offerings that are prepared in a manner consistent with FINRA Rule 2210 and the guidance in Regulatory Notice 20-21.

- If an investment program has both realized and unrealized holdings, a firm may show returns for each of the realized holdings without also showing the program's IRR, provided that the information presented is fair and balanced.
- If a communication shows returns for any realized holding, then returns for each realized holding must be shown with equal prominence.
- As a general matter, it is misleading for a communication to include metrics that combine or average the performance of only the individual realized holdings. This is the case whether or not the total fund IRR is included.
- Generally, a firm may include information beyond what is required by the GIPS standards in a communication for an ongoing program, but any information must be presented in a fair and balanced manner, must not be misleading, and otherwise must be consistent with the content standards of FINRA Rule 2210(d).

The FAQs can be found **here** in section D6, Internal Rate of Return.

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 **video** that explains how to calculate IRRs and fund metrics according to the GIPS standards calculation requirements.
- 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 **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.

Two New Q&As on Carve-Outs Issued

Two new Q&As addressing carve-outs have been posted in the **GIPS Standards Q&A Database**.

The first question asks if a firm that carves out a portion of a portfolio is also required to carve out the rest of the portfolio. The answer states that if a firm carves out a portion of a portfolio, it is not required to carve out other parts of the portfolio.

A second question asks if a specific methodology must be used when a firm synthetically allocates cash and any related income to a carve-out. The answer states that the GIPS standards do not require a specific calculation methodology for synthetically allocating cash and any related income to carve-outs. The answer also directs the reader to sample calculations available on the **Tools webpage** of the GIPS standards website.

Both Q&As may be found under the Category — Carve-Outs.

Introduction to the Global ESG Disclosure Standards for Investment Products Webinar

A live webinar about the newly released Global ESG Disclosure Standards for Investment Products is scheduled for Monday, 15 November 2021, at 12:00 p.m. US ET. The speakers will provide an overview of the new Standards and answer questions from participants. Participation is free and available globally. Audio will stream through your device. Please note there is no dial-in number for this webinar. **Register** now.

Dear GIPS Standards Helpdesk

This month's Help Desk question asks whether a firm must restate historical net-of-fees returns when changing from actual to model investment management fees and how the change should be disclosed.

Question: We historically presented net-of-fees returns that were calculated using actual investment management fees. We would like to switch to presenting net-of-fees returns that are calculated using model investment management fees. Do we have to restate historical net-of-fees returns that were calculated using actual net-of-fees returns? If recalculation of net-of-fees returns of historical periods is not required, how should it be disclosed in the GIPS Report?

Answer: Firms are not required to restate net-of-fees returns that were calculated and presented using actual investment management fees. However, firms are required to disclose if model or actual investment management fees are used. If the firm changes from using actual investment management fees to using model investment management fees prospectively, the firm would need to disclose the periods for which actual investment management fees were used and the periods for which model investment management fees are used (e.g., prior to 1 January 2021 net returns were calculated using actual investment management fees, effective 1 January 2021 net returns are calculated using model investment management fees).
