



GPS INSIGHTS

September 2018

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2018 GIPS® ANNUAL CONFERENCE HIGHLIGHTS

The 22nd Annual Global Investment Performance Standards (GIPS®) Conference was held in Austin, Texas, on September 13-14, 2018. The conference brought 400+ delegates from around the world together to learn about the changes to the GIPS standards that are on the horizon and to connect with their fellow investment performance measurement and compliance professionals. At the very end of the conference it was announced that the 2019 Annual GIPS Conference will be held September 11-12, 2019 in sunny Scottsdale, Arizona.

The buzz at the conference this year was focused on the proposed changes that were released under the Exposure Draft of the 2020 Global Investment Standards, commonly referred to as “GIPS 2020.” Several sessions highlighted the details of the Exposure Draft, which was released just weeks before the conference, and the potential impact on GIPS-compliant firms.

GIPS 2020 Highlights

Karyn Vincent, CFA, CIPM, GIPS Executive Director and Carl Bacon, CIPM, Chair of the GIPS Executive Committee kicked off the conference by providing a summary of GIPS 2020. It was highlighted that CFA Institute is committed to enhancing the provisions of the GIPS standards to ensure they are relevant to a wider variety of asset types and investment managers, including alternative investment strategies and private wealth managers. Another goal of GIPS 2020 is to consolidate the GIPS standards, as they have expanded significantly since the last full redraft in 2010 through various guidance statements and Q&As that have been released over the years. It was emphasized that while big changes are being proposed, those firms that are already in compliance with the GIPS standards should find the process of complying with the new requirements that will be effective January 1, 2020 to be relatively seamless.

Under the new proposed provisions, there are fewer specific requirements for asset classes and more focus on account structure and the characteristics of the underlying investments. The choice to use money-weighted returns (MWRs) instead of time-weighted returns (TWRs) if certain criteria are met is proposed as a change that will give firms more flexibility to report returns believed to most applicable depending on the account structure. Additionally, external valuation requirements are being proposed to extend beyond real estate to all private market investments. With this change the types of acceptable independent valuations have also been expanded. If ratified, firms would be required to receive an external valuation, valuation review (a review of valuation inputs and assumptions performed by an external 3rd party) or be subject to a financial statement audit at least once every twelve months.

Changes to the reporting requirements that GIPS-compliant firms will be subject to were also highlighted. The GIPS-compliant presentation will be replaced with two distinct types of reports: GIPS Composite Reports and GIPS Pooled Fund Reports. Traditional managers who include separate accounts in composites and do not have pooled funds will not need to make significant changes to their reporting. However, firms who sell participation in a pooled investment vehicle will have the obligation to create and present to prospective investors a GIPS Pooled Fund Report that includes the firm's claim of GIPS compliance and the performance of the fund, rather than presenting information for composite.

To the surprise of many, it is being proposed that firms who desire to present carve-out returns will be allowed more flexibility to do so. GIPS 2020 outlines that firms will have the option to allocate cash to carve-out segments synthetically, similar to what had been allowed prior to 2010, as long as the firm does this for all carve-out segments that are managed in the same strategy. However, one of the changes under GIPS 2020 is that if a firm has a carve-out composite and the firm manages standalone portfolios to the same strategy, the firm must create a composite that includes just the standalone portfolios. The GIPS Report that includes the carve-outs with allocated cash would then also have to include performance information for the composite of standalone portfolios. The intention of this proposal is to provide prospective clients the ability to review the different return series together in order to identify any differences between the results achieved by the carve-out segments and dedicated portfolios managed to the strategy.

Firms should wait to adopt the proposed changes until the final version of GIPS 2020 is released, which is expected to occur by June 30, 2019.

Another change that was highlighted during the session was related to performance track record portability. Currently, firms are required to link performance from a prior team or entity if the portability tests outlined in the GIPS standards are met. Under GIPS 2020, firms can choose if they want to link performance. It also provides clarification regarding the one-year grace period that firms are allowed for porting a track record in that the assets of the acquired non-compliant firm or affiliation must meet all the requirements of the GIPS standards within one year of the acquisition date, on a prospective basis.

Rethinking the GIPS Advertising Guidelines

Justin Guthrie, CFA and Ann Putallaz, CIPM outlined the proposed changes to the GIPS Advertising Guidelines under GIPS 2020. The presenters polled the audience as to whether the firms represented utilize the current version of the GIPS Advertising Guidelines and, not surprisingly, only a few hands were raised. The GIPS Advertising Guidelines have been modified with the intention to make the guidelines more flexible and not so prescriptive. Hopefully GIPS compliant firms will find these changes to be positive and firms will use the GIPS Advertising Guidelines more frequently to reference their claim of GIPS compliance in their advertising materials.

The modified GIPS Advertising Guidelines under GIPS 2020 will be expanded into separate sections dedicated to composites, limited distribution pooled funds, broad distribution pooled funds, and asset owners. It was noted that the GIPS Advertising Guidelines will remain voluntary, but that they will allow firms and asset owners to reference and “*take credit for*” their claim of GIPS compliance outside of GIPS Reports, while requiring substantially less disclosure than a GIPS Report and providing flexibility to include or not include performance results. It will be interesting to see to what extent managers of broadly distributed pooled funds (like mutual funds) will elect to follow the new GIPS Advertising Guidelines once they become effective.

Asset Owner Impact of GIPS 2020

A panel of individuals representing different asset owners discussed the path their organizations took in order to achieve GIPS compliance, including Rob Paterson from CalPERS, Lynn Hoover from STRS Ohio, and Sim Filteau from Caisse de dépôt et placement du Québec. There was also discussion about how the current Guidance Statement on the Application of the GIPS Standards to Asset Owners has been integrated into the body of the GIPS 2020 Exposure Draft. The asset owner guidance has now been included in GIPS 2020 as its own dedicated section consolidating all applicable guidance, avoiding the need to continue to highlight the aspects of how the requirements for asset owners differ from those of asset managers.

Extending the Relevance of the GIPS Standards to Alternative Investment Managers

Christine Iannacone, CIPM, Head of Investment Performance Analytics at Prudential Financial and Kate Mistic, CFA, Head of Alternative Investments at Telsta Super Pty Ltd, discussed the aspects of GIPS 2020 that should be of particular interest to alternative investment managers. One area of primary focus was the proposal to expand the use of MWRs. In order for a firm to elect to present MWRs for a particular composite or pooled fund, the manager has to have control over the timing of external cash flows and the portfolios in the composite or the fund must meet at least one of the following criteria: **1)** closed-end, **2)** fixed life, **3)** fixed commitment, or **4)** illiquid investments are a significant part of the investment strategy. It was suggested that this change, which more closely aligns with traditional reporting practices of alternative managers, may make GIPS compliance more appealing to such firms.

As you can imagine, a vast assortment of other proposed changes were also discussed. You can access a recording of several sessions from the conference using this link: cfainstitute.gallery.video/gips2018. Additionally, more details on GIPS 2020, including the full Exposure Draft is available at: www.gipsstandards.org/standards/Pages/gips_2020.aspx.

Let Your Voice Be Heard!

Prior to these proposed changes for GIPS 2020 becoming effective, the CFA Institute is soliciting feedback regarding the next version of the GIPS standards. Anyone who is involved with applying the GIPS standards including RIAs, asset owners, GIPS verifiers, software vendors, and investment performance consultants should review and give feedback on the changes. Comments can be submitted to CFA Institute at standards@cfainstitute.org prior to the December 31st deadline.

POSSIBLE CHANGES TO THE SEC'S ADVERTISING RULE

Matthew Cook, Senior Counsel, Investment Management Division of the U.S. Securities & Exchange Commission (SEC) participated in a panel to discuss regulatory advertising rules. Mr. Cook noted that he and others at the SEC are looking at ways to modernize the Advertising Rule (Rule 206(4)-1 of the Investment Advisers Act of 1940). The Rule was adopted in 1962 when print was primarily used by advisers, so the use of social media and email for advertising is not specifically addressed in the Rule. The role technology plays in how investors obtain information today and advisers communicate is being looked at. During the session, testimonials were discussed as were the presentation of past specific recommendations. While it was encouraging to hear that changes to the Advertising Rule are being considered it was unclear what the time table for the proposal is. However, it was noted the proposal will be released for public comment before changes are made to the SEC's Advertising Rule.

CERTIFICATE IN INVESTMENT PERFORMANCE MEASUREMENT (CIPM®)

**Registration for the
March 2019 CIPM exam
opens October 2018
through January 2019.**

An update was provided on the progress of the Certificate in Investment Performance Measurement (CIPM) program, a professional designation offered by CFA Institute that provides investment management professionals with advanced risk and return performance evaluation skills. To date, approximately 2,000 professionals have earned the right to use the CIPM designation. Among those were 140 of the approximately 400 conference attendees, 40 of whom were also CFA charterholders. Part of this success was credited to the exemption

that was granted to CFA charterholders beginning in 2017, waiving the requirement to take the CIPM Level I exam and allowing them to proceed directly to Level II. An announcement was made that several CFA societies plan to recognize new CIPM certificate holders at their annual ceremonies for new CFA charterholders. The CIPM® Program also offers scholarships and is accepting scholarship applications through January 15, 2019.

ABOUT US

Guardian Performance Solutions LLC (GPS) is a specialty compliance consulting firm dedicated to providing customized solutions to the investment management industry with the objective of helping firms to achieve and maintain compliance with the Global Investment Performance Standards (GIPS®) and facilitating the production of compliant performance advertising materials. Because GPS does not provide verification services, GPS is free from independence concerns and can take a hands-on approach to developing and managing an adviser's GIPS compliance program, which may include constructing composites, calculating and validating performance results, and writing GIPS policies and procedures. Additional information can be found at www.GuardianPerformanceSolutions.com.