

Where to Start: Implementing the 2020 GIPS® Standards

After years of development, the 2020 edition of the Global Investment Performance Standards (the “2020 GIPS® standards”) has now been finalized and made available to the public through the CFA Institute website (www.cfainstitute.org). The effective date for the 2020 GIPS standards is January 1, 2020, which means that firms that decide to claim compliance need to be prepared to adopt and implement the bulk of the changes at that point. There is one caveat to the general effective date in that the reporting requirements have a longer timeline – reports that satisfy the new requirements will not need to be created in most cases until 2021.

Firms may also choose to early adopt the 2020 GIPS standards – they do not need to wait until the year 2020 arrives. However, if a firm chooses to adopt the new GIPS standards early, they cannot selectively adhere to certain changes and not others. The firm would need to comply with all requirements of the 2020 GIPS standards, including the reporting requirements – which is where some of the more significant changes can be found. Many of the changes are to terminology (notably, GIPS Compliant Presentations are now referred to as GIPS Reports) or the specific wording of required disclosures, but there are some new disclosures and statistics that firms will need to incorporate into their materials as well.

The below checklist was organized to assist firms who need to update their GIPS compliance program to comply with the requirements of the 2020 GIPS standards.

GIPS Policies & Procedures

- Perform a gap analysis of the firm’s existing GIPS-compliance program compared to the 2020 GIPS standards and reconcile any differences.
- Implement new policies and procedures to address new requirements that are applicable to the firm.
- Make decisions regarding new options introduced in the 2020 GIPS standards and memorialize those decisions in the firm’s policies and procedures.
- Update terminology that has changed (e.g., compliant presentations should be referred to as GIPS reports).
- Update references to specific GIPS provisions to reflect any changes in wording and to use new reference identifiers (e.g., 2010 GIPS provision 0.A.9 equates to 2020 GIPS provision 1.A.11).

Total Firm Assets

- Determine whether advisory-only assets are currently being included in total firm assets.
- Determine whether uncalled committed capital is currently being included in total firm assets.

Return Measures (TWR or MWR)

- Determine whether the firm manages any portfolios where the firm has control over the timing of external cash inflows.
- For portfolios where the firm has control over the timing of external cash inflows, determine whether the portfolio also has one of the following characteristics: (1) closed-end, (2) fixed life, (3) fixed commitment, or (4) illiquid investments are a significant part of the investment strategy.
- For portfolios where the firm has control over the timing of external cash inflows and also has one of the characteristics noted above, determine whether money-weighted returns (MWR) or time-weighted returns (TWR) are a more appropriate return measure for the product or strategy.

- ❑ For funds and composites that will report MWR, determine whether subscription lines of credit have been utilized and if returns both with and without the line of credit are available.

Lists of Pooled Funds

- ❑ Determine whether funds managed by the firm qualify as “limited distribution” or “broad distribution” pooled funds.
- ❑ Create a complete list of the firm’s active broad distribution pooled funds.
- ❑ Create a complete list of the firm’s active limited distribution pooled funds, including descriptions for each fund (general information regarding the investment mandate, objective, or strategy of the pooled fund).

Pooled Fund Reporting

- ❑ Determine which pooled funds managed by the firm represent strategies that are managed for or offered as segregated accounts.
- ❑ Determine if composites will be maintained for pooled funds that do not represent strategies that are not managed for or offered as segregated accounts.
- ❑ For limited distribution pooled funds that are not included in composites, establish procedures for creating GIPS Pooled Fund Reports.
- ❑ For limited distribution pooled funds that are included in composites, determine whether the firm will produce GIPS Pooled Fund Reports, GIPS Composite Reports or both for the particular strategy.
- ❑ Implement process for providing GIPS Reports to prospective investors in limited distribution pooled funds.
- ❑ Establish procedures for determining whether new pooled funds will be included in composites prospectively.

GIPS Reports

- ❑ Determine when the firm will convert to following the 2020 reporting requirements (for reports that include performance for periods ending on or after December 31, 2020 or earlier).
- ❑ Update disclosure checklists to capture the new disclosure requirements that are outlined under the 2020 GIPS standards.

About GPS

Guardian Performance Solutions (“GPS”) provides compliance consultation services to investment management firms located throughout the country. Our expertise and focus is to review performance advertisements for adherence with regulatory requirements, draft necessary advertising disclosures, and work with firms to achieve and maintain compliance with the Global Investment Performance Standards (GIPS®).

We partner with clients and actively work as a direct extension of their in-house team to document GIPS policies and procedures, determine criteria for composite construction, calculate performance, create the firm’s list of composites, maintain GIPS compliant disclosure presentations, and liaison with the firm’s verifier to oversee an efficient and timely verification project. Additional information can be found at www.GuardianPerformanceSolutions.com.