December 31, 2018

Via Electronic Submission (standards@cfainstitute.org)

Karyn Vincent
Executive Director
Global Investment Performance Standards
CFA Institute
915 E. High Street
Charlottesville, VA 22902

Re: Comments on Exposure Draft 2020 GIPS Standards

Dear Ms. Vincent:

The Investment Adviser Association (**IAA**)[1] appreciates the opportunity to comment on the CFA Institute's (**CFA's**) Exposure Draft of GIPS 2020 (**Exposure Draft)** proposed by the Global Investment Performance Standards (**GIPS**) Executive Committee on August 31, 2018.[2] We commend the CFA for its consideration of our earlier comments[3] and its efforts to update and simplify GIPS to ensure that the standards are straightforward and remain relevant and flexible to meet the needs of its voluntary adherents.

We appreciate the increased flexibility that the proposed new standards (**2020 GIPS Standards**) will provide in many instances. However, we have significant concerns about the scope and breadth of the proposal. In particular, we are concerned about the proposed treatment of limited distribution pooled funds and the requirements relating to the provision of lists of both broad and limited distribution pooled funds. We also provide specific feedback on certain other aspects of the Exposure Draft.

Before providing our specific comments, we reiterate the concerns expressed in earlier letters that the CFA's broad vision of the scope and breadth of the 2020 GIPS Standards may make it

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[1] The IAA is a not-for-profit association that represents the interests of investment adviser firms registered with the U.S. Securities and Exchange Commission ("**SEC**"). The IAA's membership consists of more than 650 firms that collectively manage more than $25 trillion for a wide variety of clients that are individual and institutional investors, including pension plans, trusts, investment companies, private funds, endowments, foundations, and corporations. For more information, please visit www.investmentadviser.org.

[2] The Exposure Draft is *available at* https://www.gipsstandards.org/standards/Documents/gips_2020_exposure_draft.pdf.

[3] *See*, *e.g.*, IAA Letter to Jonathan Boersma, CFA, GIPS 20/20 Consultation Paper Seeking Comment on Potential Changes to GIPS (July 16, 2017), *available at* https://higherlogicdownload.s3.amazonaws.com/INVESTMENTADVISER/aa03843e-7981-46b2-aa49-c572f2ddb7e8/UploadedImages/publications/170717cmnt.pdf; and IAA Letter to CFA, Exposure Draft of GIPS Guidance Statement on Overlay Strategies (Nov. 22, 2017) (**IAA Letter on Overlay Strategies**), *available at* https://higherlogicdownload.s3.amazonaws.com/INVESTMENTADVISER/aa03843e-7981-46b2-aa49-c572f2ddb7e8/UploadedImages/publications/IAA-GIPS-Overlay-Strategies-Comment-Letter-11-22-17.pdf.

more difficult for firms to become or remain GIPS compliant. This is not only because of the requirement that compliance be firm-wide, but also because we understand that firms will need to undertake significant additional manual processes, particular with respect to private equity funds. We are also concerned that firms are likely to face greater inconsistency with existing regulation and more inadvertent foot-faults. We again ask that the CFA bear the following overarching principles in mind as it considers the final version of the 2020 GIPS Standards. These principles call for increased recognition of local regulation and the voluntary nature of GIPS, which should be responsive to market needs.

I. Principles that Should Inform the 2020 GIPS Standards

Simplicity. The 2020 GIPS Standards should be as streamlined as possible to eliminate unnecessary, duplicative, stale, or irrelevant requirements and disclosures.

Flexibility. Greater flexibility, where appropriate, allows firms to tailor GIPS to their business and will also help the CFA retain GIPS-compliant firms and increase adoption of GIPS by additional firms. While the Exposure Draft reflects increased flexibility, there are several areas where the CFA should either confirm that its approach allows for flexibility or provide for greater flexibility. In general, the IAA also favors guidance over prescriptive requirements.

Balance of Burdens and Potential Benefits. The CFA should carefully balance all burdens and costs (both for firms and investors) against the potential benefits for investors. We commend the CFA's efforts to reduce burdens on GIPS-compliant firms but recommend further consideration of safe harbors or other relief for investment managers that are already subject to local regulation, and of burdens that serve little or no useful purpose and do not appear to be in demand in the market.

Avoidance of Foot-Faults. The more rigid and complex the standards, the more likely firms will have inadvertent "technical" violations. We strongly support efforts to avoid any needless foot-fault deficiencies that might keep otherwise compliant firms from being fully GIPS-compliant. We are also concerned that these firms may face regulatory enforcement for claiming GIPS-compliance while having technical foot-faults.

Materiality and Relevance. The CFA should use materiality and relevance as the thresholds for determining whether a firm should be required – or even recommended – to make a disclosure.

Transition Time. The CFA should provide ample transition time for implementation of policies and procedures and any systems and operational modifications needed to comply with new requirements. We recommend at least a 12-month transition period, particularly for firms with private market investments.

With these principles in mind, we address several specific issues and Exposure Draft questions below.

II. General Recommendations

1) The CFA Should Treat Broad and Limited Distribution Pooled Funds Consistently

We strongly support the CFA's approach to the treatment of broad distribution pooled funds, which is consistent with our earlier comments and the above principles. We agree that firms should be permitted but not required to prepare and present a GIPS Pooled Fund Report for broad distribution pooled funds and that firms should continue to be permitted to include such funds in composites, without having to present any additional reports. In addition, we agree that firms should be required to follow the proposed GIPS advertising requirements only if an advertisement claims firm compliance with GIPS. We support the comments of the Investment Company Institute (**ICI**) as they relate to the treatment of broad distribution pooled funds, including its recommendations for modifications to the Exposure Draft.

We have significant concerns with the proposed treatment of limited distribution pooled funds, however, and do not believe that treating them differently from broad distribution pooled funds is warranted. We agree with commenters that have noted that GIPS standards are most appropriate in connection with separate accounts, where there are no requirements relating to global performance presentations. Pooled funds, on the other hand, whether broadly distributed or distributed only on a limited basis, are subject to myriad reporting requirements and restrictions and already make relevant information available to potential investors either because of applicable regulatory requirements or well-accepted market practices. An additional GIPS overlay is neither necessary nor appropriate to inform and protect investors.

The unnecessarily burdensome nature of the proposed Pooled Fund Report requirements for limited distribution pooled funds also would run counter to the CFA's stated goal of broadening GIPS compliance to alternative investment managers and make it less likely that these managers would choose to be GIPS-compliant. And at the same time these requirements would impose significant new costs and burdens on large asset managers that already claim GIPS compliance. Many such multi-faceted asset managers include limited distribution pooled funds in their existing composites already, and have no need – and there is no market demand – for separate GIPS reports for every limited distribution pooled fund in addition to the traditional all-encompassing composite report. We understand that, in many cases, hundreds of separate reports could be required and that most of the additional effort needed to generate these reports likely would be manual, rather than automated, making them more expensive and time-consuming, and less reliable. We thus urge the CFA not to impose onerous new requirements on limited distribution pooled funds but rather treat them consistently with broad distribution funds. As discussed below, we recommend that the CFA allow firms, in their sole discretion, to continue to include these funds in their general composites and permit, but not require, them to prepare and provide GIPS Pooled Fund Reports to investors for these funds.

2) Proposed Definitions of Limited Distribution Pooled Funds (<u>Request for Comment #1</u>)

Although this is less critical if the CFA follows our recommendation to treat limited distribution pooled funds the same as broad distribution pooled funds, we nevertheless recommend that the

CFA simplify the definitions of these terms. We agree with the ICI's comment that the proposed definition of "broad distribution pooled find" includes too many concepts, some of which may conflict with one another, and suggest that the CFA adopt the ICI's proposed definition:

> *A POOLED FUND that is substantively regulated under a framework that would permit the general public to purchase or hold the POOLED FUND'S shares.*

For the same reasons, we recommend that limited distribution pooled funds be defined as:

> *Any POOLED FUND that is not a BROAD DISTRIBUTION POOLED FUND.*

To the extent that *all* pooled funds are not accorded the same treatment under the 2020 GIPS Standards, we also think it would be helpful for the CFA to provide guidance around when pooled funds would be considered broad, limited, either, or both since it is not always clear whether a pooled fund is one or the other. Indeed, traditional funds are often offered both broadly to retail investors and on a more limited basis, for example, through one-on-one contacts to institutional investors (*i.e.* institutional share classes) or with UCITS broadly distributed in the EU but privately placed in the United States. Thus, mutual funds, ETFs, and closed-end funds all could be considered both broad and limited distribution pooled funds depending on the circumstances.[4] We recommend that where a pooled fund is a "hybrid" or could be classified as either broad or limited distribution, the firm should be able to elect to treat the fund as either broad or limited distribution, and should disclose its rationale for its election.

3) Options for Limited Distribution Pooled Funds if Not Permitted to be Treated Like Broad Distribution Pooled Funds

If the CFA determines to distinguish between broad and limited distribution pools under the 2020 GIPS Standards, then, in addition to permitting hybrid pooled funds to opt to be treated as broad distribution pooled funds, the CFA should, at a minimum, provide the following options to managers of limited distribution pooled funds to allow them to tailor their compliance to their particular circumstances:

(i) If the manager of any limited distribution pooled fund includes the pooled fund in a composite, it should not also be required to provide a separate GIPS Pooled Fund Report for that pooled fund. Since the fund would be managed to the same strategy as the composite, a separate report would provide little if any useful additional disclosure but would be enormously burdensome for firms that until now have included pooled funds in their composites; or

(ii) If the limited distribution pooled fund is not included in a composite, the fund manager should be permitted to provide the offering documents or substantially similar disclosures that are already required to be provided by the limited distribution pooled fund – whether by regulation or agreement – in lieu of a separate GIPS Pooled

[4] The difficulty drawing lines underscores our recommendation that all pooled funds be treated alike under the 2020 GIPS Standards.

Fund Report for that fund and consistent with the approach the CFA has taken for broad distribution pooled funds.

Under this approach, firms would only be *required* to provide a GIPS Pooled Fund Report where a limited distribution pooled fund is either not included in a composite or where it does not already separately provide the offering documents or substantially similar disclosures.

4) Proposed Requirements Relating to Lists and Descriptions of Pooled Funds (Requests for Comment # 3 and #4)

The Exposure Draft proposes to require firms to maintain and provide lists and descriptions of their broad and limited distribution pooled funds – including terminated funds for at least five years after termination – to any prospective investor that requests them. We do not think it would benefit investors to require firms to provide lists and descriptions of all funds to prospective investors and it would be extremely burdensome and complicated for firms to do so. We therefore urge the CFA to eliminate these requirements.

We agree with the ICI's comments with respect to lists and descriptions of broad distribution pooled funds. These comments are equally applicable to limited distribution pooled funds. The information in any lists and descriptions is likely to be over-inclusive and not meaningful to or helpful for investors. This is especially the case for information on terminated funds. We understand that investors currently rarely, if ever, request firms' composite lists and have no reason to think investors would ask to see pooled fund lists.

In addition, prospective investors in limited distribution pooled funds may not be qualified to obtain information on all funds offered by a firm and a firm may not be permitted to provide such information without first qualifying each investor. It would also be unduly burdensome to require firms to tailor lists and descriptions for specific prospective investors. We do not see any investor benefit justification for imposing that burden and cost on a firm.

If the CFA nevertheless retains list-related requirements, we support the modifications recommended by the ICI with respect to broad distribution pooled funds. These recommendations relate to (i) deleting any requirements to list terminated funds; (ii) eliminating the requirement that firms provide a complete list of "appropriate" funds so that firms would not erroneously be suggesting that they are making a suitability determination; and (iii) confirming that firms would satisfy GIPS requirements if they choose to rely on website-posted lists of funds.

The CFA should apply these modifications to limited distribution pooled funds as well. However, we note that it would be exceedingly difficult and labor-intensive for firms offering limited distribution pooled funds to have to determine, even with respect to website-maintained lists, which potential investors would be eligible to even view such lists.

III. Additional Responses to Specific Requests for Comment

We provide additional responses below to specific questions in the Exposure Draft. Our comments should be read in light of the principles and recommendations outlined above.

Request for Comment #2

Currently, the GIPS standards are silent on how quickly firms must update GIPS compliant presentations. (The term compliant presentation has been replaced with GIPS Composite Reports and GIPS Pooled Fund Reports. We also use the term GIPS Report to include both GIPS Composite Reports and GIPS Pooled Fund Reports.) Some firms present returns that are several years old, often providing as the rationale the fact that they are waiting for the verification to be completed before updating the reports. We believe that firms should be required to update GIPS reports on a timely basis, even if the verification is not complete.

a. Do you agree that firms should be required to update GIPS reports within a specified time period?

b. Do you agree that six months is the appropriate amount of time?

IAA Response**:** Yes, we believe it is appropriate to require firms to update GIPS reports within a specified time period. However, six months may often not be long enough. While most firms should be able to complete their updates within six months in the ordinary course, we suggest that the CFA allow up to 12 months to help ensure that firms do not lose their GIPS compliance status because of circumstances beyond their control. First, final valuations are not always readily available for private market investments. Second, updates could be delayed, for example, when an auditor fails to complete its audits on time, when a firm has difficulty finding a new auditor within the time allowed (this is especially problematic for smaller pooled funds), or during periods of changes to key personnel in the GIPS area. The CFA could recommend completion within six months but require completion within 12 months.

In addition, the CFA could consider allowing firms to use data from a verified GIPS report for up to 18 months after finalization in very limited circumstances – and consistent with their own policies and procedures – to help protect firms, especially those with smaller pooled funds, from foot-faults if they have difficulty getting cooperation from third party vendors or face disruptions to their normal process.

Request for Comment #5

In the GIPS 2010 edition, the notion of portability hinges on the requirement that performance from a past firm or affiliation must be linked to or used to represent the historical performance of a new or acquiring firm if, on a composite-specific basis, certain criteria are met. We have received feedback over the years that firms that do not want to meet the criteria will not do so, and portability will not be achieved. We decided to change the perspective and allow firms to choose to port returns if certain criteria are met.

a. Do you agree that firms should be allowed to choose, for each composite or pooled fund, when returns from a prior firm or affiliation are used to present the historical performance of the new or acquiring firm, if certain tests are met?

b. *The one-year grace period allows a firm that acquires a non-compliant firm to not lose its compliant status because it does not immediately meet the requirements of the GIPS standards for the acquired assets.* ***Do you agree that the one-year grace period should apply only to performance at the new or acquiring firm, and that firms should be able to port history from the prior firm or affiliation after the one-year grace period?***

c. *In addition to the three tests that a firm must meet if it wishes to link performance from a prior firm or affiliation, there is a fourth test that must be met. There must not be a break in the track record between the prior firm or affiliation and the new or acquiring firm.* ***Should this test be specified within this provision?***

IAA Response**:** We generally support flexibility in how firms may port performance from a prior firm or affiliation. We also generally agree that firms should be able to port history from a prior firm or affiliation after the one-year grace period. We do not believe that an additional test requiring that there not be a break in the track record is appropriate; firms should be permitted to explain any breaks just as they do outside of a porting situation.

Request for Comment #8

Currently, all returns must be calculated after the deduction of actual trading expenses incurred during the period, and estimated trading expenses are not allowed. When the GIPS standards were originally created, trading expenses were generally higher than they are now and were more standardized. Today, trading expenses can be charged in a variety of ways and may not be under a firm's control. Indeed, in some instances, firms may not have the ability to determine how or where trading expenses are charged. We have decided to introduce allowing estimated transaction costs (the term that replaces trading costs) for composites if returns calculated using estimated transaction costs are equal to or lower than those that would have been calculated using actual transaction costs.

a. Do you agree that estimated transaction costs should be allowed?

b. Do you believe that firms will have the ability to determine if estimated transaction costs are more conservative than actual transaction costs?

Research costs and their relationship to transaction costs have become a focus in some markets. We do not specify how research costs must be treated, and we also do not require any related disclosures.

c. Should firms be required or recommended to treat research costs in a specific way?

d. Should firms be required or recommended to disclose how research costs are reflected in returns?

e. ***Should firms be required or recommended to disclose if research costs are separately charged to clients?***

IAA Response**:** We agree that firms should be allowed to use estimated transaction costs. However, we suggest that the CFA eliminate the condition that estimated trading expenses may only be used "if the firm can determine that estimated transaction costs are greater than or equal to actual transaction costs" because firms should be able to use estimated transaction costs provided they fairly represent the costs and are not materially greater than or lower than the actual transaction costs. Otherwise, the costs saved from using estimated costs will be eaten up with calculations for determining whether costs are over or under.[5]

With respect to research, we believe that firms should have flexibility, especially in light of the changing international regulatory landscape and market practices. We thus suggest that the CFA should not require or even recommend that firms treat research costs in a particular way. We also do not believe that firms should be required or recommended to disclose how research costs are reflected in returns but we agree with the CFA that all costs charged to clients should be addressed through disclosure.

Request for Comment #10

When calculating since-inception internal rates of returns (now referred to as money-weighted returns), currently private equity portfolios are required to use daily external cash flows for periods beginning on or after 1 January 2011. Real estate closed-end funds are required to use quarterly or more frequent external cash flows. It is proposed that all portfolios and pooled funds, including private equity, would be required to use daily cash flows when calculating money-weighted returns for periods beginning on or after 1 January 2020, and quarterly external cash flows for periods prior to 1 January 2020.

a. ***Do you agree that firms should be required to use daily external cash flows as of 1 January 2020 when calculating money-weighted returns?***

b. ***Is the change to lessen the required frequency for private equity for periods prior to 1 January 2020 appropriate?***

IAA Response**:** We do not agree that firms should be required to use daily external cash flows when calculating money-weighted returns as that could require significant manual processes and be unduly burdensome for firms that do not now and are not required under current regulation to track cash flows on a daily basis. However, if the CFA adopts this change, allowing for a more limited frequency for periods before January 2020 would be appropriate to minimize the burden on firms having to calculate these returns retroactively and making it easier for more firms to comply.

[5] Separately, if the CFA disagrees with our suggestion, we note that page 21 of the Exposure Draft refers to estimates that are "greater than or equal to," while page 6 and the request for comments refer to estimates that are "lower than or equal to" The CFA should clarify this point.

Request for Comment #11

Currently, real estate investments are required to receive an external valuation at least once every 12 months, with an exception for when clients opt out of the external valuation. In that case, firms must obtain an external valuation at least once every 36 months. We expanded the notion of external valuation beyond the current requirement for real estate to private market investments but broadened the type of valuations that are allowed. Private market investments include real estate, infrastructure, timberland, private equity, and similar investments that are illiquid and not traded on an exchange. These assets must have an external valuation, valuation review, or be subject to a financial statement audit at least once every 12 months.

a. Do you agree that private market investments should be required to have an external valuation, valuation review, or be subject to a financial statement audit?

b. Is once every 12 months the appropriate valuation frequency given the expanded types of valuation that are allowed?

c. Are there any other types of valuation that should also be allowed?

IAA Response**:** We agree that private market investments should be required to have an external valuation, valuation review, or be subject to a financial statement audit and that, in general, once every 12 months is the appropriate valuation frequency. We request confirmation of the following: (i) that the CFA will continue to permit external valuation waivers for up to 36 months in the circumstances currently permitted; and (ii) that current auditing standards are sufficient for valuation purposes. In addition, to provide additional flexibility we recommend that the CFA also permit valuation reviews to be done by an internal review committee.

Request for Comment #12

Currently, firms are required to present returns both with and without side pockets, when a composite includes only one pooled fund that has discretionary side pockets. Composites with multiple portfolios are not required to present returns both with and without side pockets. To eliminate differences between composites and pooled funds, and to acknowledge that firms should be accountable for all returns, including those of side pockets, firms will be required to present returns that include side pockets. Firms will not be required to present returns that do not include side pockets. ***Do you agree with this approach?***

IAA Response**:** We generally agree with this approach but ask the CFA to confirm that the requirement to include side pockets would only apply when the management of the side pockets is discretionary.

Request for Comment #13

Firms are recommended to use gross-of-fees returns when calculating risk measures.

Do you believe that firms should instead be recommended to use net-of-fees returns to calculate risk measures when only net-of-fees returns are presented in a GIPS Composite Report or GIPS Pooled Fund Report? Would your answer differ when there are performance-based fees or carried interest?

IAA Response**:** We believe that firms should continue to be permitted to use gross-of-fees returns when calculating risk measures. We believe that this is a better measure of the investment strategy and permitting firms to use gross-of-fees returns will also allow them to report as permitted or required in local jurisdictions.

Requests for Comment #15 and #22

To be responsive to specific constituencies, including private wealth managers and managers of private market investments, we propose that firms may once again allocate cash to carve-outs. If firms choose to allocate cash to a carve-out, they must do this for all carve-outs managed in that strategy. Once a firm obtains a standalone portfolio managed in the same strategy as the carve-out, the firm must create a composite that includes only standalone portfolios and must present the performance of this composite alongside the performance of the composite that includes carve-outs with allocated cash.

a. Do you agree that firms should be allowed to include in composites carve-outs with allocated cash?

b. Should firms be required to use a specific method to allocate cash to carve-outs?

c. Do you agree that firms should be required to create and maintain a composite that includes only standalone portfolios?

IAA Response**:** We strongly support permitting firms to once again allocate cash to carve-outs. However, we do not believe that firms should be required to use a specific method to do so, but should have flexibility in this regard.

We do not agree that firms should be required to create and maintain a composite that includes only standalone portfolios. Instead of creating and presenting two composites – one with allocated cash and one with managed cash (standalone) managed under the same strategy – we support having one composite that discloses that the composite includes both carve-outs and standalone portfolios and the percentage of assets in each. We believe this would be more appropriate and less confusing to prospective investors**.**

Requests for Comment #16 and #25

In GIPS 2010, firms are required to present income and capital component returns for real estate composites. When calculating these component returns, firms are required to calculate each component return separately. As part of the move to eliminate asset class provisions, we have deleted these real estate–specific requirements and have expanded the concept of component returns to all composites and pooled funds. Firms would be

> *allowed to derive one of the component returns as the difference between the total return and one of the calculated component returns. We acknowledge that component returns are widely used in some markets, but not in others. We therefore are recommending component returns to be included in GIPS Composite and Pooled Fund Reports that include time-weighted returns, and we expect that firms will present component returns where it is customary for a specific market to do so.*

> a. ***Do you agree with eliminating the requirement for real estate portfolios to present component returns?***
>
> b. ***Do you agree with eliminating the requirement for real estate portfolios to separately calculate component returns?***
>
> c. ***Do you agree that component returns should be recommended for all composites and pooled funds when time-weighted returns are presented?***

IAA Response**:** Yes, we agree with eliminating the requirement for real estate portfolios to present component returns, with appropriate disclosure. We also agree with eliminating the requirement for real estate portfolios to calculate component returns separately, also with appropriate disclosure. Eliminating both of these requirements would be consistent with the stated goal of eliminating asset class-specific provisions. We also agree with the approach of recommending, but not requiring, component returns for all composites and pooled funds when time-weighted returns are presented.

Requests for Comment #17, # 23, #26, #30

> *We frequently hear that too many disclosures are required in GIPS reports. We have introduced sunset provisions where possible—that is, although all disclosures must be included for at least one year, some disclosures may subsequently be deleted once the firm determines that they are no longer relevant to interpreting the performance track record.*

> a. ***Do you agree that firms should be allowed to delete some disclosures once the firm determines that they are no longer relevant to interpreting the performance track record?***
>
> b. ***Did we correctly identify the disclosures that should be allowed to be deleted once the firm determines that they are no longer relevant to interpreting the performance track record?***

IAA Response**:** We agree that firms should be allowed to delete some disclosures once the firm determines that they are no longer relevant to interpreting the performance track record. We also believe that the CFA has identified the disclosures that should be allowed to be deleted appropriately. We suggest, however, that the CFA allow for additional flexibility for a firm to delete disclosures that the CFA has not identified but that the firm determines are no longer relevant, consistent with its policies and procedures for sunsetting of specific types of disclosure.

<u>Request for Comment #18</u>

A Guidance Statement on Overlay Strategies has been exposed for public comment but has not been finalized. A key concept within this Guidance Statement is discussion of the various methods that can be used to calculate returns for overlay strategy portfolios. Because of the unique nature of overlay strategy portfolio return calculations, we propose requiring firms to disclose details about these calculations.

a. ***Do you agree that firms should be required to disclose details about these calculations for overlay strategy composites?***

b. ***Are there other disclosures that would be meaningful that are specific to overlay strategy returns calculations?***

<u>IAA Response</u>**:** As discussed in our comment letter on the CFA's proposed guidance statement on overlay strategies,[6] the IAA strongly believes that, for disclosures to be relevant and meaningful, firms should only be required to disclose details about calculations for overlay strategies when those strategies are held out by the firm as a standalone mandate.

<u>Requests for Comment #20 and #28</u>

Subscription lines of credit are being used by more firms and for longer periods. These lines of credit can have a significant effect on returns. As has been widely discussed in the industry, there has also been a lack of consistency in return calculations when lines of credit are used. For comparability and transparency, we propose requiring firms to present returns both with and without the subscription line of credit activity, whenever any line of credit has been used. A return with the line of credit reflects line of credit activity as an external cash flow.

a. ***Do you agree that firms should be required to present returns both with and without the subscription line of credit activity?***

b. ***Should we be describing returns with and without the subscription line of credit differently? For example, some firms refer to these returns as levered and unlevered returns.***

c. ***Do you agree that firms should be required to treat all lines of credit the same and not differentiate between short-term and long-term lines of credit?***

d. ***We propose requiring returns with and without the subscription line of credit activity only when money-weighted returns are presented. There is no comparable requirement when time-weighted returns are presented. Do you agree that this is the correct approach?***

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[6] *See* IAA Letter on Overlay Strategies.

IAA Response**:** Firms should be permitted to provide only one return, *i.e.*, a return with the subscription line of credit activity. It would be confusing for firms to provide two sets of returns to clients with respect to one fund/account. Information relating to lines of credit should be provided through disclosure, as appropriate.

We also note that the proposed related instructions are not sufficiently clear as to how a firm should calculate performance with or without the line of credit. For example, it is not clear how firms should handle the costs or expenses related to the line of credit or an infusion of cash before a capital call. We would welcome the chance to engage further with the CFA on FAQs or a Guidance Statement to provide more clarity on this issue.

Request for Comment #21

In GIPS 2010, compliant presentations for private equity composites and closed-end real estate funds are required to include certain information about committed capital, distributions, and related multiples as of each annual period end. For example, a private equity composite that has been in existence for four years would present four series of information about committed capital, distributions, and related multiples. Consistent with the proposed change to require firms to present only one return—the since-inception money-weighted return through the most recent annual period end—we require information about committed capital, distributions, and related multiples as of the most recent annual period end.

Do you agree that firms should be required to present information about committed capital, distributions, and related multiples only as of the most recent annual period end?

IAA Response**:** Yes, we agree that firms should be required to present information about committed capital, distributions, and related multiples only as of the most recent annual period end. We believe that requiring firms to show other periods would be extraneous and would not add much benefit or value.

Requests for Comment #24 and #27b

Investors in a pooled fund will be impacted by all fees and costs incurred by the fund. Therefore, we require firms to present pooled fund returns that are net of all fees and expenses.

Do you agree the firms should be required to present pooled fund returns that are net of all fees and expenses?

IAA Response**:** We note that presenting returns net of certain fees and expenses is in some circumstances required by local law. Other jurisdictions may permit presenting returns gross-of-fees. We recommend that the CFA permit firms to present their results as required or permitted in their local jurisdictions, with appropriate disclosure.

IV. Comments on Proposed Advertising Provisions

1) Definition of "Advertisement"

The 2020 GIPS Standards proposed definition of "Advertisement" reads:

> ***Advertisement***
>
> *For the GIPS Advertising Guidelines, an advertisement includes any materials that are distributed to or designed for use in newspapers, magazines, FIRM or ASSET OWNER brochures, POOLED FUND fact sheets, POOLED FUND offering documents, letters, media, websites, or any other written or electronic material distributed to more than one party, and there is no contact between the FIRM or the ASSET OWNER and the reader of the advertisement. One-on-one presentations and individual client reporting are not considered advertisements.*

The IAA recommends simplifying this definition and including a carve-out for responding to unsolicited requests for information, as follows:

> *An advertisement is any written or electronic communication made by a GIPS compliant FIRM that offers investment advisory services regarding portfolio(s) of assets through a public medium to more than one person. One-on-one presentations, individual client reporting, and responses to unsolicited requests are not considered advertisements.*

2) Response to Specific Request for Comment on Advertising

> ***<u>Request for Comment #45</u>***
>
> *Except for broad distribution pooled funds, firms and asset owners are not required to include risk measures, either quantitative or qualitative, in GIPS advertisements that include performance.*
>
> ***Should firms and asset owners be required or recommended to include risk measures in all GIPS advertisements?***

<u>IAA Response</u>**:** Firms should not be required to include risk measures in all GIPS advertisements. We believe that the proposed requirement would make it even more complicated for firms to advertise GIPS compliance and that inclusion of risk measures would only confuse or overwhelm investors.

V. Additional Comments on Proposed Provisions

1) Proposed Section 2.A.23 - Valuation

Proposed Section 2.A.23 provides:

> *If the FIRM uses the last available historical price or preliminary, estimated values as FAIR VALUES, the FIRM MUST: . . .*

a. *Consider them to be the best approximation of the current FAIR VALUE.*

b. *Assess the differences between preliminary, estimated values and final values and the impact on COMPOSITE or POOLED FUND assets, TOTAL FIRM ASSETS, and performance, and make any adjustments when final values are received.*

Consistent with the general principles we articulate above, we believe it is important that adjustments to valuation of composite or pooled fund assets and total firm assets should be required only if they are "material" under the firm's error correction policy.

2) Proposed Section 4.A – Presentation and Reporting Requirements

Proposed Section 4.A.1.h provides that *total* firm assets as of each annual period must be presented on every GIPS page and the 2020 GIPS Standards will no longer permit a firm to show a *percent* of firm assets for each annual period end. We urge the CFA to allow firms to continue showing the percent of firm assets as opposed to the actual firm AUM figure. Calculating GIPS-required "actual" AUM with 100 percent accuracy is exceedingly difficult for large complex firms because of factors such as portfolios holding other portfolios that are already counted at the firm. This calculation is also materially different from other AUM calculations that advisers are required to provide, including for purposes of their SEC Form ADV filings. We are concerned that requiring the actual AUM figure will expose such firms to inadvertent foot-faults and potential reputational risk. We thus recommend that firms be permitted to show the percent of firm assets if they prefer. Knowing the percent of firm assets may also be more helpful to a prospective investor, since that investor can then know how large this particular strategy is in relation to the total firm.

Proposed Section 4.A.1.l states that the three-year annualized return of the composite and benchmark for each period for which the three-year annualized ex post standard deviation of the composite and benchmark are presented must now be included in each GIPS Composite Report. We oppose this requirement for several reasons. First, it would require substantial additional data and disclosure and also be duplicative of the data already provided in the quantitative section of GIPS compliant presentations. Second, it runs counter to the spirit of simplifying the 2020 GIPS Standards by adding disclosures to pages that already have very little room for additional information. Third, prospective investors can always request additional information from a firm. Finally, the data are currently presented in a format that prospective investors can easily view and interpret and adding this additional information risks confusing investors. We urge the CFA to retain the current standard.

Proposed Section 4.C requires that the composite inception date be disclosed and recommends that the composite creation date be disclosed. While we agree that a composite's inception date is an important data point and is reasonable to require, a composite's creation date is also an important data point, especially if a composite is created retroactively and historical performance for a strategy is readily available. This is particularly important for firms that regularly execute upon GIPS portability rules and choose to port history in from other firms. We recommend that the composite creation date also be a required disclosure as it is no less material than the composite inception date and requiring its disclosure would help reduce confusion.

3) Proposed Section 5.C.34 – Material Errors

Proposed Section 5.C.34 states that firms must disclose any change to the GIPS Composite Report resulting from a material error and the material error disclosure should remain on the GIPS Composite Report for a minimum of one year and for as long as it remains relevant to interpreting the performance track record. We recommend that firms have the option of creating two versions of the GIPS Composite Report, one with the material error disclosure for distribution to those who received the erroneous presentation, and the other without the material error disclosure for those prospective investors who did not see or receive the erroneous presentation. Providing a GIPS Composite Report with a material error disclosure to a prospective or existing client who never saw the erroneous presentation would serve no purpose and could cause confusion.

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We appreciate your consideration of our comments on this important Exposure Draft. Please do not hesitate to contact the undersigned by phone at 202-293-4222 or by email at gail.bernstein@investmentadviser.org or paul.glenn@investmentadviser.org if we may provide any additional information or assistance to you during this process.

Respectfully Submitted,

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