

A FIRST LOOK AT GIPS 2020

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U.S. Investment Management Alert

On August 30, 2018, the CFA Institute released for public comment the [GIPS 2020 Exposure Draft](#) (the "Exposure Draft").

The Exposure Draft reflects significant changes to the current Global Investment Performance Standards ("GIPS" or the "Standards") that will affect firms that currently claim compliance with GIPS and may influence the decision of firms that have not yet chosen to pursue compliance with the Standards. Some of the more prominent changes contained in the Exposure Draft are described below.

POOLED FUND REPORTS

Perhaps the most significant change to the Standards is the treatment of pooled funds under GIPS. Under the proposed Standards, a GIPS firm will no longer be required to create a composite for a strategy if it manages only one or more pooled funds according to that strategy. Instead, the GIPS firm **must** prepare and present a "GIPS Pooled Fund Report" with respect to Limited Distribution Pooled Funds such as private funds and AIFs, and **may** prepare and present a "GIPS Pooled Fund Report" with respect to Broad Distribution Pooled Funds, such as U.S. registered funds and UCITs. In the long term, this change might make compliance with GIPS more attainable for fund managers, but it will also introduce interpretive questions and substantial changes for GIPS firms that manage both separate accounts and pooled vehicles.

CARVE-OUTS

Reversing the requirement imposed in 2010 that a carve-out must be managed with its own cash balance, the Exposure Draft would allow GIPS firms to once again allocate cash to carve-outs. If adopted, this change would likely make GIPS compliance more attractive to private equity and real estate fund managers.

PERFORMANCE PORTABILITY

The long-standing **requirement** that the performance of an acquired firm or investment team be linked to performance at the new firm if certain criteria are met has been made **optional** under the proposed Standards. In addition, the requirement that any non-compliant assets of an acquired firm or team be brought into compliance within one year of the acquisition has been relaxed; under the proposed Standards, the one-year compliance period will apply only for periods after the acquisition (*i.e.*, on a prospective basis) and there will be no limitation on when firms may port performance history from the prior firm. Additional guidance may be necessary to understand the application of this change in various circumstances.

REORGANIZATION OF THE GIPS STRUCTURE

The Standards have been reorganized in an effort to reduce complexity and the need for cross-referencing. With the new structure, the CFA Institute sought to include all items that must be considered when creating a performance report within a single section.

GUIDANCE FOR ASSET OWNERS

Asset owners that claim compliance with GIPS have a separate section in the proposed structure to clarify the application of GIPS to their investing activities, which will require the reporting of performance for each "total fund," a new term defined in the Exposure Draft for the pool of assets managed by an asset owner according to a specific investment mandate.

The CFA Institute will accept comments on the Exposure Draft through **December 31, 2018**. According to the Exposure Draft, final adoption of the revised Standards is expected in mid-2019, with an effective date of **January 1, 2020**, such that performance reports for periods ending on or after **December 31, 2020** will need to be prepared in accordance with the revised Standards.

The adoption of GIPS 2020 and expected amendments to the SEC's Advertising Rule will have a significant impact on the marketing activities of global asset managers in the coming years. Visit our [Marketing Resource Center](#) to stay informed of regulatory and marketplace developments and learn how K&L Gates' practical insights can help you navigate these changes.

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