December 24, 2018

CFA Institute
Global Investment Performance Standards
Re: GIPS 2020 Exposure Draft
915 East High Street, Charlottesville, VA 22902
USA

standards@cfainstitute.org

Re: Exposure Draft of the 2020 Global Investment Performance Standards

The CIPC commends the hard work done by the CFA Institute staff, the GIPS Executive Committee, the GIPS Technical Committee, and various sub-committees to align global interests and make the GIPS standards more recognized across all asset classes.

The CIPC values the comment period and would like to thank the CFA Institute for the opportunity to participate and present the CIPC's views on this Exposure Draft.

The following pages include CIPC's responses to the questions posed. The CIPC welcomes the opportunity to answer any follow-up questions that may arise regarding this comment letter.

Kind regards,

Filteau

Simon Filteau, CFA
Chair, Canadian Investment Performance Council

Request for Comment #1

We use the terms "limited distribution pooled fund" and "broad distribution pooled fund." A limited distribution pooled fund is typically sold in one-on-one presentations and offers participation in that specific fund (e.g., hedge funds, commingled funds). In some markets, these funds are not highly regulated. Broad distribution pooled funds are typically sold to the general public, and the firm may not know the client. These funds are typically highly regulated.

a. Are the terms limited distribution pooled fund and broad distribution pooled fund easily understood?

As presently defined in the Exposure Draft, the terms limited distribution pooled funds and broad distribution pooled fund are easily understood. For greater transparency, firms should also include the definition in their policies and procedures and distinguish which category the firm falls under. The CIPC also recommends that examples be provided by the CFA Institute.

b. *Are there terms that would better differentiate these two categories of funds? One suggestion is to use the terms "private funds" and "public funds."*

The terms limited distribution pooled fund and broad distribution pooled fund are well defined, therefore they are sufficient. Using the terms "private funds" and "public funds" could be misleading and confusing. The CIPC suggests providing examples within the new guidelines to better clarify.

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?

The CIPC agrees that firms should be required to update GIPS reports within a specified time period even if the verification process has not been completed yet.

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

Yes, the CIPC agrees that six months is an appropriate amount of time. For greater clarification, it should be noted that the reporting period is six months after calendar year-end. The CIPC recommends that the guidelines include an example, such as, "a GIPS report for a particular mandate or pooled fund for the period ending December 31, 2017 must be made available by June 30, 2018."

Request for Comment #3

Firms are required to include terminated pooled funds on the respective list for at least five years after the pooled fund termination date. This approach is consistent with the requirement for the list of composites. Is it appropriate for firms to include terminated pooled funds on these lists when the pooled funds are not available for prospective investors?

> The CIPC agrees that firms should include terminated pooled funds on these lists for at least five years even if they are not available for prospective investors. This practice should be clearly stated in the firm's policies and procedures. In CIPC's view, having a complete list will indicate the firm's ability to launch and maintain successful pooled funds, decreasing the chances of cherry picking only successful funds.

Request for Comment #4

Currently, firms are required to provide a complete list of composite descriptions to any prospective client that makes such a request. Under the new GIPS 2020 structure, firms can manage strategies for three types of products: composites, limited distribution pooled funds, and broad distribution pooled funds. This approach also creates three types of prospects: prospective clients for composites, prospective investors for limited distribution pooled funds, and prospective investors for broad distribution pooled funds.

a. Considering limited distribution pooled funds, we expect that firms would either wish to or would be required by regulation to tailor the list of these funds to the individual prospect. For example, a firm that offers these funds to prospects throughout the world would include only the funds appropriate to an investor in Switzerland if a Swiss prospect asked for this list. Do you agree that firms should be required to provide a list of only those funds that are appropriate to the specific prospect?

> The CIPC disagrees that firms should be required to provide a list of only those funds that are appropriate to the specific prospect. A comprehensive list should be made available to all investors regardless of whether the prospect can invest in the fund or not. It would be challenging for a larger firm to track which prospective client should get a particular partial list.

b. Unlike the lists for composites and limited distribution pooled funds, which must include both the name and the description of either all composites or limited distribution pooled funds, firms that manage broad distribution pooled funds would instead be required to have a list of such funds, and provide that list upon request. As a second step, firms would be required to provide the description of any broad distribution pooled fund upon request. We took this approach to acknowledge that many firms manage very large numbers of such funds, and maintaining a list of descriptions could be very challenging. We also acknowledge that most firms have very limited contact with prospects for these funds, if any. Do you agree with this two- step approach for broad distribution pooled funds?

> The CIPC agrees that firms that manage broad distribution pooled funds should be required to have a list of such funds, and provide that list upon request. Firms should also be required to provide the description of any broad distribution pooled fund upon request.

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?

We 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 historical performance, if certain tests are met. However, the CIPC is concerned that firms will use this to their advantage and only pick certain composites or funds.

For greater adoption of the GIPS standards, portability rules could be relaxed so long as the firm clearly documents in their policies and procedures the criteria used in order to avoid cherry picking. Once a firm chooses a particular criterion, the firm must consistently apply this criterion over time.

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?

The CIPC agrees that ideally a one-year grace period should apply; however, larger firms may need more time to port the performance when acquiring a non GIPS compliant firm. There is a possibility that these firms would need, at a minimum a two to three year grace period for the entire process to be completed effectively and efficiently. All firms should be required to complete the process in a reasonable amount of time and clearly disclose which parts of the business are GIPS compliant and plans for bringing other parts of the business in line.

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?

Yes, it should be specified within the provision. The CIPC agrees that firms should meet the fourth test. Once there is a break in the track-record firms should not be able to calculate extended period returns.

Request for Comment #6

Firms may choose to present money-weighted returns instead of time-weighted returns for a specific composite or pooled fund if the firm controls the cash flows and meets at least one of the additional criteria for the composite or pooled fund.

a. Are the additional criteria the correct criteria for determining if money-weighted returns may be presented?

Yes, the CIPC believes that the specific criteria mentioned above can justify the use of a money-weighted rate of return methodology and will provide better measures for industry practices.

b. Are the appropriate names used for these additional criteria?

Yes, the names used for these additional criteria are well defined and no more details are needed so long as the definitions form part of the Guidance Statement.

c. Should firms instead be required to present money-weighted returns versus time- weighted returns for a specific composite or pooled fund when the firm controls the cash flows and it meets at least one of the additional criteria?

The CIPC believes time-weighted returns should remain as the standard methodology since they are best for comparability. Money-weighted should be an exception allowed only when the specific criteria listed above are met.

Request for Comment #7

Currently, total firm assets must include both discretionary and non-discretionary assets managed by the firm. In the GIPS 2020 Exposure Draft, this requirement still holds. In the GIPS 2020 Exposure Draft, however, we allow firms to present advisory-only assets that are not managed by the firm but require that advisory-only assets be presented separately from total firm assets. This approach is to recognize that many firms' business models are changing. Also, firms have approached the treatment of committed capital differently when calculating total firm assets. Some firms consider committed capital to be part of total firm assets because the firm is charging an investment management fee on the committed capital. Other firms exclude committed capital because it is not under management before capital is called. We propose that firms must not include committed capital in total firm assets.

a. Do you agree that firms should be required to not include advisory-only assets in total firm assets?

The CIPC believes that firms should be allowed to present advisory-only assets that are not managed by the firm as long as these assets are presented separately from total firm assets.

b. Do you agree that firms should be required to not include committed capital in total firm assets?

Yes, the CIPC believes that firms should be required not to include committed capital in total firm assets as committed capital is not under management before capital is called.

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' 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?

Yes, the CIPC believes that estimated transactions costs should be allowed if actual costs are not available or onerous to calculate. This option is very practical for firms and the impact of using estimates versus real costs is often immaterial.

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

The CIPC disagrees. Determining if estimated costs are more conservative can involve complex calculations.

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?

Neither. Since research costs are often incurred at the firm level, it would be very complicated to try to allocate them to specific trades or clients. They would usually not affect client returns at all.

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

Neither for the reasons mentioned in the response to Comment #8 c).

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

The CIPC believes firms should be recommended, not required, to disclose if research costs are separately charged to clients as this should be part of the client / manager relationship and may vary from client to client depending on their business relationship with the firm.

Request for Comment #9

The Guidance Statement on Alternative Investment Strategies and Structures provides guidance for firms that manage alternative strategies if the firm places reliance on valuations that are received with a significant time lag (e.g., for portfolios or funds invested in third-party hedge funds). There is some *concern that firms may adopt the use of preliminary, estimated values for liquid strategies where more appropriate valuations are available.*

a. Should this guidance be limited to certain types of assets, such as investments in third-party private market investment funds?

Yes, the CIPC believes that this guidance should be limited to certain types of assets and should be defined in advance. If a firm chooses to use these estimates, appropriate disclosure should be included in the GIPS reports.

b. Should this guidance instead continue to be included in guidance rather than included as a provision?

In order to reflect the importance of the change, the CIPC suggests the guidance to be included as a provision.

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?

Yes, the CIPC agrees that firms should be required to use daily external cash flows as of 1 January 2020 when calculating money-weighted returns as this methodology yields more accurate results.

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

No, firms must use daily cash flows for money-weighted returns for private investments (excluding real estate) as of 2011, if the information is available. If the information is not available, then monthly data is permitted prior to 2020. Disclosure describing cash flow accuracy is required.

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?

Yes, the CIPC agrees provided that external valuations do exist. External valuations are usually perceived to be more reliable and less biased. They add value and ensure the quality of the data used to generate rates of return will be more consistent and transparent. Disclosures on how the underlying assets were evaluated should be required.

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

No, the CIPC disagrees. The CIPC believes that once every 12 months might be too costly and time consuming. The CIPC believes that a frequency of 36 months should be sufficient because the long-term nature of these assets leads to little price change over one year. A full valuation method should be mandatory.

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

Firms should be able to determine the best way of valuating these assets. The process should be reasonable and not overly expensive. Detailed documentation and valuation procedures should be developed and maintained.

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?

Yes, the CIPC agrees with this approach as the total return reflects the performance of the fund. The CIPC does not see a scenario that would allow marketing of returns without the side pockets. Allowing for choice will decrease comparability and the possibility of cherry picking.

Request for Comment #13

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

a. 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?

Risk measures should be based on gross-of-fees returns as this is the true return reflecting the strategy and allows for best comparability. The net-of-fee returns are not relevant when clients have different fees structures. If gross-of-fees are not available then a firm could use or show both net and gross returns using an average cost base for the gross calculation.

b. Would your answer differ when there are performance-based fees or carried interest?

No, the answer would be the same; however, for a different reason. Calculating returns net of performance-based fees might be cumbersome and operationally too complex. Adding or accruing performance bonus would change the ultimate risk measure that is used to compare managers.

Request for Comment #14

a. Currently, firms are allowed to create sponsor-specific composites that include only that specific sponsor's wrap fee portfolios, when presenting performance to that sponsor. We removed the concept of a sponsor-specific wrap fee composite. Firms may still present sponsor-specific performance, but we view this as client reporting versus composite reporting to a prospective client. We also changed the term from wrap fee/SMA to wrap fee. Do you agree with these changes?

The CIPC agrees because it would eliminate a layer of complexity. Ultimately, separately managed accounts or sponsor-specific composites can cause confusion. It shouldn't matter what bank or sponsor has specific investment needs. Nothing should be excluded in order to holistically show composite returns. The CIPC does agree that sponsor-specific composites are more appropriate for client reporting rather than for composite reporting.

Request for Comment #15

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?

No, the CIPC believes that firms should not be allowed to allocate cash as the generated returns will not be representative of actual performance and the carve-out would be hypothetical. A firm could allocate cash after the fact which could lead to manipulating the performance numbers.

For example, a firm with a balanced mandate at the end of a bear market could technically create a new mandate taking out the bonds and cash and just show equity performance. This could provide firm with the opportunity for manipulation and decrease comparability of managers.

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

For the reason listed above, the CIPC believes firms should not allocate cash to carve-outs. If firms are allowed to do so, an allocation methodology should be defined and consistently used.

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

Yes, firms should be required to create and maintain a composite that includes only standalone portfolios for all the reasons mentioned above.

Request for Comment #16

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?*

The CIPC agrees 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?*

The CIPC agrees 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?*

The CIPC does not agree that component returns should be recommended for all composites and pooled funds when time-weighted returns are presented. This recommendation should only apply to composites with portfolios where the income portion makes up a major portion of the total return.

Request for Comment #17

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?*

The CIPC agrees that firms should be allowed to delete disclosures once the firm determines that they are no longer relevant to interpreting the performance track record; however, the CIPC recommends that firms should be required to justify and document why disclosures have been removed.

If firms choose to be verified, the verification firm should also audit removed disclosures and the consistent application of the firm's policy. This may require additional guidance for verification firms.

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?*

One additional disclosure may be considered: a composite redefinition may be removed once all the returns on the composite report are for periods after the redefinition. The redefinition of the firm could also be removed at this time.

For ease of reference, the allowable disclosures that may be deleted should be more clearly labeled, either in an appendix, guidance statement, referenced in each applicable section or by the use of a tag or other search capability as the identified disclosures can be difficult to find.

Request for Comment #18

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?

The CIPC agrees with requiring firms to disclose details about the returns calculations for overlay strategy portfolios. Changes of calculation methodology should also be disclosed.

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

Yes, in addition to disclosure about the returns calculation, details about fees and pricing specific to overlay strategies should also be included.

Request for Comment #19

We have expanded the ability to present money-weighted returns beyond private equity composites and closed-end real estate funds, if certain criteria are met. In GIPS 2010, compliant presentations for private equity composites and closed-end real estate funds are required to include since-inception internal rates of return (now renamed money-weighted returns) through each annual period end. For example, a private equity composite that has been in existence for four years would present four since-inception money-weighted returns. We propose to instead require firms to present money-weighted returns for only one period: from the composite's inception through the most recent annual period end. Do you agree that *firms should be required to present returns for only one period—from inception through the most recent annual period end?*

The CIPC does not agree that firms should be required to present returns for only one period, from inception through the most recent annual period end. Prospective investors would have to reference past reports to understand how the strategy has performed over time. The CIPC would recommend showing returns since inception through to the last 5 year ends (i.e. presenting 5 money-weighted returns).

Request for Comment #20

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?

The CIPC disagrees that firms should be required to present returns both with and without the subscription line of credit activity. Calculating returns without the subscription line of credit activity can be subjective and open to interpretation. For example, would firms exclude certain cash flows? From a systems perspective, how could these returns be calculated? Are there system limitations?

The CIPC also questions if showing returns without the subscription line of credit activity would be helpful when comparing managers. Rather requiring two return calculations, the CIPC suggests that the amount of leverage should be disclosed for investors to conduct their own analysis.

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.*

The CIPC would prefer the terms "levered" and "unlevered" when describing subscription line of credit.

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?

The CIPC believes that there is a difference between short-term vs long-term lines of credit. However, the length of term should be clearly defined to avoid misinterpretation. The CIPC believes that the length of term could be an indicator of risk and recommends that disclosure be required on the term of leverage.

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?

Given the response for Question #20 a), there should be no discrepancy between money-weighted returns and time-weighted returns as the CIPC does not agree with the requirement to present two different returns.

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?

The CIPC agrees that that firms should be required to present information about committed capital, distributions, and related multiples only as of the most recent annual period end. More data points for these metrics would be too resource-intensive to maintain and not valuable.

Request for Comment #22

Once a firm obtains standalone portfolios that are managed in the same strategy as the carve-out with allocated cash, the firm must create a composite that includes only standalone portfolios and must present the performance of the composite of standalone portfolios along with the performance of the composite that includes portfolios with allocated cash. The composite that includes carve-outs with allocated cash will have a different inception date from the composite of standalone portfolios. Do since-inception money-weighted returns with different start dates provide helpful information to prospective clients?

No. However, as stated in CIPC's response to Comment #15, carve-outs with allocated cash should not be permitted.

Request for Comment #23

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?*

The CIPC agrees that firms should be allowed to delete disclosures once the firm determines that they are no longer relevant to interpreting the performance track record; however, the CIPC recommends that firms should be required to justify and document why disclosures have been removed.

If firms choose to be verified, the verification firm should also audit removed disclosures and the consistent application of the firm's policy. This may require additional guidance for verification firms.

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?*

One additional disclosure may be considered: a composite redefinition may be removed once all the returns on the composite report are for periods after the redefinition. The redefinition of the firm could also be removed at this time.

For ease of reference, the allowable disclosures that may be deleted should be more clearly labeled, either in an appendix, guidance statement, referenced in each applicable section or by the use of a tag or other search capability as the identified disclosures can be difficult to find.

Request for Comment #24

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?

The CIPC agrees with the premise that investors in a pooled fund will be impacted by all fees and costs incurred by the fund. The CIPC does not agree with the conclusion to require returns net of all fees and expenses in all instances.

Net of all fees and expenses returns are the most appropriate reflection of the historical returns for a typical client when these fees and expenses are deducted from the NAV. However, these fees could also be calculated and charged at an individual subscriber level. Fees could be negotiated or tiered based on assets. House-holding of accounts would mean additional fee reductions.

In addition, performance-based fees calculated and charged at the individual subscriber level introduce additional complications depending on external contribution and withdrawals and the crystallization of performance-based fees.

In light of all the potential detriments above, the CIPC would rather see showing gross returns along with fee disclosures as this would be the most beneficial for prospective clients. This would also increase comparability across different managers and help increase the adoption rate of GIPS. However, showing the NAV returns would be the best practical compromise. Disclosure of all fees and expenses and whether they have been deducted from NAV must be included.

Request for Comment #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?*

The CIPC agrees 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?

The CIPC agrees 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?

The CIPC does not agree that component returns should be recommended for all composites and pooled funds when time-weighted returns are presented. This recommendation should only apply to composites with portfolios where the income portion makes up a major portion of the total return.

Request for Comment #26

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?

The CIPC agrees that firms should be allowed to delete disclosures once the firm determines that they are no longer relevant to interpreting the performance track record; however, the CIPC recommends that firms should be required to justify and document why disclosures have been removed.

If firms choose to be verified, the verification firm should also audit removed disclosures and the consistent application of the firm’s policy. This may require additional guidance for verification firms.

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?

One additional disclosure may be considered: a composite redefinition may be removed once all the returns on the composite report are for periods after the redefinition. The redefinition of the firm could also be removed at this time.

For ease of reference, the allowable disclosures that may be deleted should be more clearly labeled, either in an appendix, guidance statement, referenced in each applicable section or by the use of a tag or other search capability as the identified disclosures can be difficult to find.

Request for Comment #27

In GIPS 2010, compliant presentations for private equity composites and closed-end real estate funds are required to include since-inception internal rates of return (now renamed money- weighted returns) through each annual period end. For example, a private equity composite that has been in existence for four years would present four since-inception money-weighted returns. We propose to instead require firms to present money-weighted returns for only one period: from the pooled fund's inception through the most recent annual period end. Also, 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.

a. Do you agree that firms should be required to present returns for only one period—from inception through the most recent annual period end?

The CIPC does not agree that firms should be required to present returns for only one period, from inception through the most recent annual period end. Prospective investors would have to reference past reports to understand how the strategy has performed over time.

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

As stated in the response to comment #24, the CIPC disagrees that firms should be required to present pooled fund returns that are net of all fees and expenses.

Request for Comment #28

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?

The CIPC disagrees that firms should be required to present returns both with and without the subscription line of credit activity. Calculating returns without the subscription line of credit activity can be subjective and open to interpretation. For example, would firms exclude certain cash flows? From a systems perspective, how could these returns be calculated? Are there system limitations?

The CIPC also questions if showing returns without the subscription line of credit activity would be helpful when comparing managers. Rather requiring two return calculations, the CIPC suggests that the amount of leverage should be disclosed for investors to conduct their own analysis.

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.*

The CIPC would prefer the terms “levered” and “unlevered” when describing subscription line of credit.

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?*

The CIPC believes that there is a difference between short-term vs long-term lines of credit. However, the length of term should be clearly defined to avoid misinterpretation. The CIPC believes that the length of term could be an indicator of risk and recommends that disclosure be required on the term of leverage.

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?

Given the response for Question #28 a), there should be no discrepancy between money-weighted returns and time-weighted returns as the CIPC does not agree with the requirement to present two different returns.

Request for Comment #29

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?

The CIPC agrees that that firms should be required to present information about committed capital, distributions, and related multiples only as of the most recent annual period end. More data points for these metrics would be too resource-intensive to maintain and not valuable.

Request for Comment #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?

The CIPC agrees that firms should be allowed to delete disclosures once the firm determines that they are no longer relevant to interpreting the performance track record; however, the CIPC recommends that firms should be required to justify and document why disclosures have been removed.

If firms choose to be verified, the verification firm should also audit removed disclosures and the consistent application of the firm's policy. This may require additional guidance for verification firms.

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?

One additional disclosure may be considered: a composite redefinition may be removed once all the returns on the composite report are for periods after the redefinition. The redefinition of the firm could also be removed at this time.

For ease of reference, the allowable disclosures that may be deleted should be more clearly labeled, either in an appendix, guidance statement, referenced in each applicable section or by the use of a tag or other search capability as the identified disclosures can be difficult to find.

Request for Comment #31

Currently, the GIPS standards are silent on how quickly asset owners must update GIPS-compliant presentations. (For Asset Owners, the term compliant presentation has been replaced with GIPS Asset Owner Report.) Although we have not seen this happen with asset owners, 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 and asset owners should be required to update GIPS reports on a timely basis, even if the verification is not complete.

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

Yes, the CIPC agrees that asset owners should update GIPS reports within a specified time period, regardless of the status of a verification or audit being completed. Like other firms complying with GIPS, the asset owners must set error correction policies that will oversee any discrepancies or items unearthed by an audit or late posting private asset.

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

Yes, the CIPC agrees the six month time frame is sufficient.

Request for Comment #32

Consistent with the Guidance Statement on the Application of the GIPS Standards to Asset Owners, if an asset owner has the authority to compete for business by marketing to prospective clients, as is done by firms, the part of the asset owner that is competing for assets must be defined as a separate firm. This separate firm must follow all sections of the GIPS standards related to firms and all applicable requirements. Do you agree that this concept should continue?

Yes, the CIPC agrees. Despite the increased workload, this would ensure the fair treatment of the asset owner when compared to other firms competing for the same business.

Request for Comment #33

Asset owners may choose to present time-weighted returns or money-weighted returns for additional composites. Do you agree that asset owners should be allowed to choose which returns are presented for the optional additional composites?

Yes, the following should be considered when choosing which returns are presented for the underlying composites:

1) the type of returns presented for the total plan

2) the underlying assets representing the optional additional composite

For instance, if the total plan is using only time-weighted returns, they should be considered in the presentation of returns for additional composites. If the additional composites are comprised of private equity, then consideration of the underlying investments should also be factored in when choosing the type of returns (in this instance, money-weighted returns). Regardless of the criteria for returns selection, the reasons for the choice of returns should be disclosed and, with rare exceptions, should not change.

Request for Comment #34

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 an asset owner's control. Indeed, in some instances, asset owners 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) 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?*

Yes, the CIPC agrees, but only if actual transaction costs are not available.

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

If actual cost is not available, a conservative estimate will be difficult to evaluate and to verify. It is believed by the CIPC that asset owners will not need or use estimated transaction costs.

Request for Comment #35

The Guidance Statement on Alternative Investment Strategies and Structures provides guidance for asset owners that manage alternative strategies if the asset owner places reliance on valuations that are received with a significant time lag (e.g., for portfolios or funds invested in third- party hedge funds). There is some concern that asset owners may adopt the use of preliminary, estimated values for liquid strategies where more appropriate valuations are available.

a. Should this guidance be limited to certain types of assets, such as investments in third-party private market investment funds?

Yes, the CIPC believes that this guidance should be limited to certain types of assets and should be defined in advance. If a firm chooses to use these estimates, appropriate disclosure should be included in the GIPS reports.

b. Should this guidance instead continue to be included in guidance rather than included as a provision?

The CIPC believes this should continue to be included in guidance rather than as a provision. Ultimately, since preliminary or estimated valuations for private investments are not preferred for asset owners, this guidance should not be added as a provision.

Request for Comment #36

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 asset owners should be required to use daily external cash flows as of 1 January 2020 when calculating money-weighted returns?

Yes, the CIPC agrees that asset owners should be required to use daily external cash flows as of 1 January 2020 when calculating money-weighted returns as this methodology yields more accurate results.

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

No, firms must use daily cash flows for money-weighted returns for private investments (excluding real estate) as of 2011, if the information is available. If the information is not available, then monthly data is permitted prior to 2020. Disclosure describing cash flow accuracy is required.

Request for Comment #37

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, asset owners 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?

Yes, the CIPC agrees provided that external valuations do exist. External valuations are usually perceived to be more reliable and less biased. They add value and ensure the quality of the data used to generate rates of return will be more consistent and transparent. Disclosures on how the underlying assets were evaluated should be required. An asset size limit could be also set in the internal valuation policy, to give the option of internal valuation for assets under a materiality threshold specified in advance.

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

No, the CIPC disagrees. We believe that once every 12 months might be too costly and time consuming for Canadian asset owners. A large part of illiquid assets are usually made up of direct investments. The CIPC believes that an external valuation frequency of 36 months should be sufficient because the long-term nature of these assets leads to little price change over one year. Between this 36-month cycle, a full annual valuation method should be mandatory, using other types of valuation (see below).

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

Firms should be able to determine the best way of valuating these assets. The process should be reasonable and not overly expensive. Detailed documentation and valuation procedures should be developed and maintained. Other types of valuation could include internal valuations with an external audit of that process.

Request for Comment #38

Asset owners will be required to present returns that include side pockets but will not be required to present returns that do not include side pockets. Do you agree with this approach?

Yes, the CIPC agrees, GIPS compliant presentation should include all discretionary assets.

Request for Comment #39

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

a. Do you believe that asset owners 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 Asset Owner Report?

Risk measures should be based on gross-of-fees returns as this is the true return reflecting the investment strategy. However, the inclusion of fees should not create a material change in the ex-post risk measures. Risk measures based on net returns should be permissible when gross returns are not available. However, the type of returns used to calculate risk measures should be documented and disclosed.

b. Would your answer differ when there are performance-based fees or carried interest?

No, the answer would be the same.

Request for Comment #40

In GIPS 2010, asset owners are required to present income and capital component returns for real estate composites. When calculating these component returns, asset owners 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 total funds. Asset owners 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 Asset Owner Reports that include time-weighted returns, and we expect that asset owners 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?

The CIPC agrees 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?

The CIPC agrees 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 total funds and composites when time-weighted returns are presented?

The CIPC does not agree that component returns should be recommended for all composites and pooled funds when time-weighted returns are presented. This recommendation should only apply to composites with portfolios where the income portion makes up a major portion of the total return.

Request for Comment #41

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 asset owner determines that they are no longer relevant to interpreting the performance track record.

a. Do you agree that asset owners should be allowed to delete some disclosures once the asset owner determines that they are no longer relevant to interpreting the performance track record?

The CIPC agrees that firms should be allowed to delete disclosures once the firm determines that they are no longer relevant to interpreting the performance track record; however, the CIPC recommends that firms should be required to justify and document why disclosures have been removed.

If firms choose to be verified, the verification firm should also audit removed disclosures and the consistent application of the firm's policy. This may require additional guidance for verification firms.

b. Did we correctly identify the disclosures that should be allowed to be deleted once the asset owner determines that they are no longer relevant to interpreting the performance track record?

One additional disclosure may be considered: a composite redefinition may be removed once all the returns on the composite report are for periods after the redefinition. The redefinition of the firm could also be removed at this time.

For ease of reference, the allowable disclosures that may be deleted should be more clearly labeled, either in an appendix, guidance statement, referenced in each applicable section or by the use of a tag or other search capability as the identified disclosures can be difficult to find.

Request for Comment #42

Asset owners may choose to present money-weighted returns for additional composites in a GIPS Asset Owner Report. In GIPS 2010, compliant presentations for private equity composites and closed-end real estate funds are required to include since-inception internal rates of return (now renamed money-weighted returns) through each annual period end. For example, a private equity composite that has been in existence for four years would present four since-inception money-weighted returns. We propose to instead require asset owners to present money-weighted returns for only one period: from the composite's inception through the most recent annual period end. If the asset owner does not have records to support this track record, however, the asset owner must present the annualized money-weighted return for the longest period for which the asset owner has such records, through the most recent annual period end. This is to acknowledge that asset owners have very long histories and some of the earlier records may not be sufficient to support the entire track record.

a. Do you agree that asset owners should be required to present only one return: the since-inception money-weighted return through the most recent annual period end?

The CIPC does not agree that firms should be required to present returns for only one period, from inception through the most recent annual period end. Asset owners often have long performance track records. Presenting only the since inception money-weighted returns will not be reflective of the often useful recent performance experience. Valuation coverage should be presented for the year-end of returns presented.

b. When asset owners do not have records to support the entire track record, do you agree that asset owners should instead be required to present the money-weighted return for the longest period for which the asset owner has such records?

Yes, provided this agrees with the CIPC's response to Comment #42 a), i.e. multiple return periods is shown and there is full valuation coverage for the year-end returns presented.

Request for Comment #43

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 asset owners to present only one return—the since-inception money-weighted return through the most recent annual period end or, in the absence of records, the money-weighted returns for the longest period for which the records are available 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 asset owners should be required to present information about committed capital, distributions, and related multiples only as of the most recent annual period end?

The CIPC agrees that that firms should be required to present information about committed capital, distributions, and related multiples only as of the most recent annual period end. More data points for these metrics would be too resource-intensive to maintain and not valuable.

Request for Comment #44

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 asset owner determines that they are no longer relevant to interpreting the performance track record.

a. Do you agree that asset owners should be allowed to delete some disclosures once the asset owner determines that they are no longer relevant to interpreting the performance track record?

The CIPC agrees that firms should be allowed to delete disclosures once the firm determines that they are no longer relevant to interpreting the performance track record; however, the CIPC recommends that firms should be required to justify and document why disclosures have been removed.

If firms choose to be verified, the verification firm should also audit removed disclosures and the consistent application of the firm's policy. This may require additional guidance for verification firms.

b. *Did we correctly identify the disclosures that should be allowed to be deleted once the asset owner determines that they are no longer relevant to interpreting the performance track record?*

One additional disclosure may be considered: a composite redefinition may be removed once all the returns on the composite report are for periods after the redefinition. The redefinition of the firm could also be removed at this time.

For ease of reference, the allowable disclosures that may be deleted should be more clearly labeled, either in an appendix, guidance statement, referenced in each applicable section or by the use of a tag or other search capability as the identified disclosures can be difficult to find.

Request for Comment #45

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?

The CIPC suggests that firms and asset owners be recommended, not required, to include risk measures, either quantitative or qualitative, in GIPS advertisements that include performance.

Risk measures can often be ambiguous and may require lengthy disclosure in order to be properly interpreted. The amount of information in a GIPS advertisement could be overwhelming for prospective clients and risk measures should rather form part of an in person discussion with the manager.

Request for Comment #46

Do you agree that firms should be required to include benchmark returns in a GIPS Advertisement for a broad distribution pooled fund that includes performance?

The CIPC disagrees that benchmarks should be required in a GIPS advertisement, but should be permitted. If a firm chooses to show a benchmark, the benchmark should be the same primary benchmark that is part of the GIPS report. Once a firm decides to include a benchmark, it should be required to be shown consistently on subsequent advertisements.

Consideration has been given to the following reasons for not requiring a benchmark in a GIPS advertisement:

- The cost of licensing benchmarks can be expensive and may put smaller firms at a disadvantage

- Current Canadian requirements for Mutual Fund Fact Sheets do not require benchmarks
- Requiring benchmarks could be more strict than local laws, making for lower adoption of the GIPS standards
- Not all pooled funds have a benchmark that can be compared apples-to-apples, for example emerging market pooled funds typically have a high active share
- Some firms are benchmark agnostic
- Benchmark disclosure can become complicated and overwhelm the reader if the benchmark has changed overtime or if blended benchmarks are used

Request for Comment #47

The term "sales charges and loads" is defined as the costs associated with buying or selling shares of a pooled fund. Is this a well-understood term, or is there a better term?

Although well understood by professionals in the mutual fund space, "sales charges and loads" is not a common term understood by all managers. More importantly, the term is not always clearly understood by the general public. There is also a concern that this term may not be translated correctly in different languages, such as French. The CIPC recommends replacing the defined term by simply stating "costs associated with buying and selling" a product, which can be defined as a fund or security.

It is important to recognize that the Canadian Securities Administrators have recently requested comments on the Proposed Amendments to NI 81-105 Mutual Fund Sales Practices and Related Consequential Amendments that have an objective to prohibit the payment of upfront sales commissions and discontinue sales charge options, including low-load options. The CIPC questions whether these terms will even be in use in the years to come or have a different meaning than defined by the GIPS standards.