NORSKE FINANSANALYTIKERES FORENING
THE NORWEGIAN SOCIETY OF FINANCIAL ANALYSTS

CFA Institute
Global Investment Performance Standards
Reference: GIPS 2020 Exposure Draft
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Oslo, 19.12.2018

INVITATION TO COMMENT:
Exposure Draft of the 2020 Global Investment Performance Standards

Dear Sirs,

We would like to thank you for the opportunity to provide comments on the Exposure Draft of the 2020 Global Investment Performance Standards

The Norwegian Society of Financial Analysts (Norske Finansanalytikeres Forening, hereafter referred to as NFF) has been the sponsor of GIPS® in Norway since 1999.

Our comments follow mainly the order of the questions in the exposure draft.

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? Answer: Yes, the definitions are easily understood.
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." Answer: No, not necessary to differentiate further.
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? Answer: Yes, such a requirement is supported.
b.	Do you agree that six months is the appropriate amount of time? Answer: We believe a 6-month period is too short. We suggest 12 months.
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.
a.	Is it appropriate for firms to include terminated pooled funds on these lists when the pooled funds are not available for prospective investors? Answer: It should be a recommendation, not a requirement.
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? Answer: We believe it should be a recommendation, not a requirement.
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? Answer: Yes, we support this addition to the standards.
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?

	Answer: Yes, in principle. The GIPS Standards rely on the assumption that the firm adheres to "true and fair" presentations. The option to bring a non-compliant firm into GIPS compliance for future reporting could be regarded as a "short cut" compared to GIPS compliance on a standalone basis.
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? Answer: Yes, 12 months is enough time.
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? Answer: Yes, we agree that this test should be specified within the provisions.
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? Answer: No further criteria is needed
b.	Are the appropriate names used for these additional criteria? Answer: Yes, the appropriate names are used.
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? Answer: It should be a recommendation to calculate both.
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? Answer: What constitutes advisory-only assets is in some situations less obvious. In Norway hold-to-maturity portfolios of bonds may be a large part of a firm's assets. The firm is not allowed to sell the bonds but gives advice to the owner about the timing of bond purchases and credit quality, and monitors the bonds through the lifetime of the portfolio.

b.	Do you agree that firms should be required to not include committed capital in total firm assets? Answer: Yes, we support the view that only assets that are actually managed should be included in firm assets.
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? Answer: If estimated transaction costs are allowed, the treatment of administrative fees/costs should also be addressed.
b.	Do you believe that firms will have the ability to determine if estimated transaction costs are more conservative than actual transaction costs? Answer: Transaction costs, definitions and treatment are used in numerous ways in different regulations (PRIPPS and MiFID II). We are not certain that firms are able to determine if estimated transactions 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? Answer: We support not specifying how research costs must be treated. If firms are able to specify research costs, they should also be able to calculate actual transaction costs..
d.	Should firms be required or recommended to disclose how research costs are reflected in returns? Answer: Firms should be 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? Answer: Firms should be recommended to disclose if research costs are separately charged to clients.
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?

	Answer: Yes, it should be limited to Alternative Investment Strategies and Structures.
b.	Should this guidance instead continue to be included in guidance rather than included as a provision? Answer: It should be continued to be included in a guidance statement and not 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? Answer: We do not believe precision would be increased by requiring using daily cash flows in money-weighted calculations.
b.	Is the change to lessen the required frequency for private equity for periods prior to 1 January 2020 appropriate? Answer: See answer above
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? Answer: Yes, we support such a requirement.
b.	Is once every 12 months the appropriate valuation frequency given the expanded types of valuation that are allowed? Answer: Yes, we support such a requirement.
c.	Are there any other types of valuation that should also be allowed? Answer: No comment
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.

a.	Do you agree with this approach? Answer: Yes, but note that side pockets are rarely used in Norway.
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? Answer: Yes, as long as it is a recommendation.
b.	Would your answer differ when there are performance-based fees or carried interest? Answer: Yes, if the performance based fees or carried interest are a substantial part of the gross-of-fees return, it should be a requirement to use a net-of-fees return when calculating risk measures.
Request for Comment #14	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.
a.	Do you agree with these changes? Answer: Yes, but note that wrap fees are rarely used in Norway.
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? Answer: Yes, we support this alteration.
b.	Should firms be required to use a specific method to allocate cash to carve-outs? Answer: No comment.
c.	Do you agree that firms should be required to create and maintain a composite that includes only standalone portfolios? Answer: No comment.

Yours sincerely,

For The Norwegian Society of Financial Analysts (NFF)

Guri Angell-Hansen
Secretary General

All enquiries or comments related to GIPS should be sent to the Chairman of the "NFF Committee on Performance Measurement" Mr. Jørn Gunnar Kleven AFA / CEFA
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