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Popularity of Subscription Facilities Drives Changes for Global Investment Performance Standards

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The Global Investment Performance Standards ("GIPS," or the "Standards") published by the CFA Institute ("CFA") have long been a set of self-regulated guidelines for investment managers, aimed at promoting standardized and ethical investment reporting to investors. The Standards, while voluntary, are immensely popular with both investors and investment managers. According to CFA, 84 of the top 100 asset managers have adopted the Standards and claim compliance for at least part, if not all, of their business. So what does this have to do with subscription finance?

The current Standards, published in 2010, are now stale. Since 2010, the use of subscription lines of credit has become widespread and, frankly, common for investment managers. Given the extended debate in the industry regarding the lack of transparency and consistency in subscription facility reporting over the past couple of years, the CFA took notice. CFA issued a new draft for comment in August 2018. The proposed new Standards would require: that GIPS-compliant managers disclose the purpose, size, and outstanding amounts of any subscription lines; that IRR calculations include the cash flows, values, and associated costs for the subscription line; and that managers disclose whether composite IRR reporting includes subscription line usage. The exposure draft also includes a requirement that the manager present investors with the composite since-inception money-weighted return both with and without including the subscription line activity.

The comment period on the exposure draft expired at the end of 2018. CFA expects to publish the final version on June 30, 2019, with an effective date for CFA-compliant managers of January 1, 2020. The comments are public and available for review on the CFA website (see link at the end of the article). There are quite a few familiar names in the list of commenters. Many commenters argue that managers should, at the very least, report the existence, usage, amount, and basic terms of any subscription line, but that the performance report should also reflect the actual investment returns. A requirement to report both the levered and unlevered returns could be confusing to investors and would be onerous to the managers, they say.

Several of the commenters express the opinion that a subscription line is no different from any other use of leverage by the manager, so if there is a requirement to provide an unlevered report, it should be exclusive of all leverage of the fund, not just a subscription line.

On the other hand, a number of commenters indicate support for the additional reporting requirements. They take the view that such reporting would increase overall transparency and make it easier for potential investors to compare investment managers on an apples-for-apples basis.

Now that the commenting period is over, it will be interesting to watch for the final draft of GIPS to examine the changes to the exposure draft proposals based on the comments. By 2020, the result will likely become commonplace in the industry.

CFA, the provider of the well-regarded Chartered Financial Analyst Program, among other professional certifications, initially published the Standards in 1999. Given the 10-year gap since the last update to the Standards in 2010, it is likely that the 2020 Standards will remain in place for some time.

The full set of comments to the exposure draft can be found here.