



# SEC PRIVATE FUND ADVISER RULE UPDATE

RS Joint Session with Accounting  
and Performance Measurement  
Committees

March 27, 2024



## PROJECT SCOPE

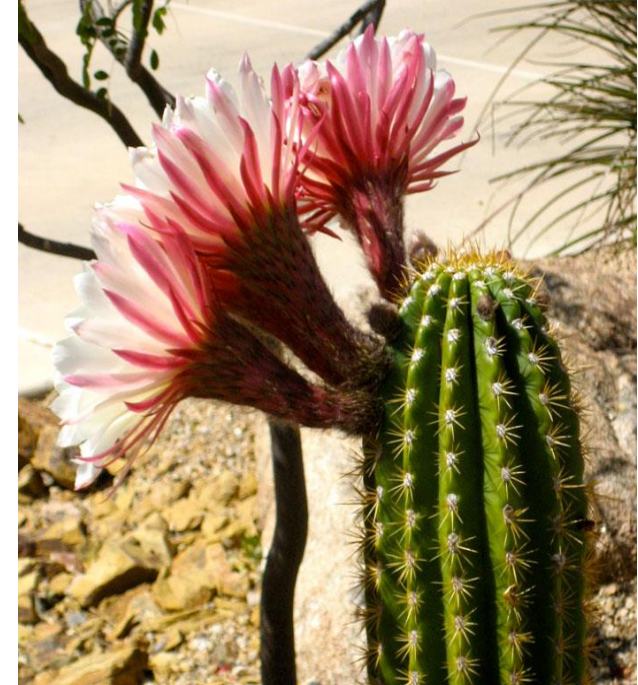
This Reporting Standards project is focused on the **Quarterly Statement Rule** requirement of the SEC's Private Fund Adviser's Rule published August 23, 2023.

Reminder: Any information provided is considered guidance, should be used for information purposes only, and could be adjusted/amended at a future date dependent on information received or published by the SEC. Consult your legal counsel and compliance department for additional information and requirements specific to your fund's facts, circumstances, and needs.



# OVERSIGHT TASK FORCE

- Jamie Kingsley, RS Director
- Sally Ann Flood, RS Board Chair, Deloitte
- Jim Allen, RS Board, Starwood
- Kathryn Gernert, RS Board, Texas Permanent School Fund
- Jim Strezewski, RS Board, Blue Vista Capital
- John Kjelstrom, RS Council Chair, Chatham Financial
- Diane Wild, RS Council, LaSalle
- John Caruso, past RS Council Chair, RCG



# COLLABORATIVE CONTRIBUTORS

- Ken Robinson, CFA Institute
- Neal Prunier, ILPA
- Lindsey Simon, Simon Compliance
- Lou DeFalco, RS Council, PWC
- Mark Wojteczko, Deloitte
- Peter Bloomfield, KPMG
- Clinton John, EY



# QUARTERLY STATEMENT RULE TASK FORCES

## Fee and Expense Disclosure

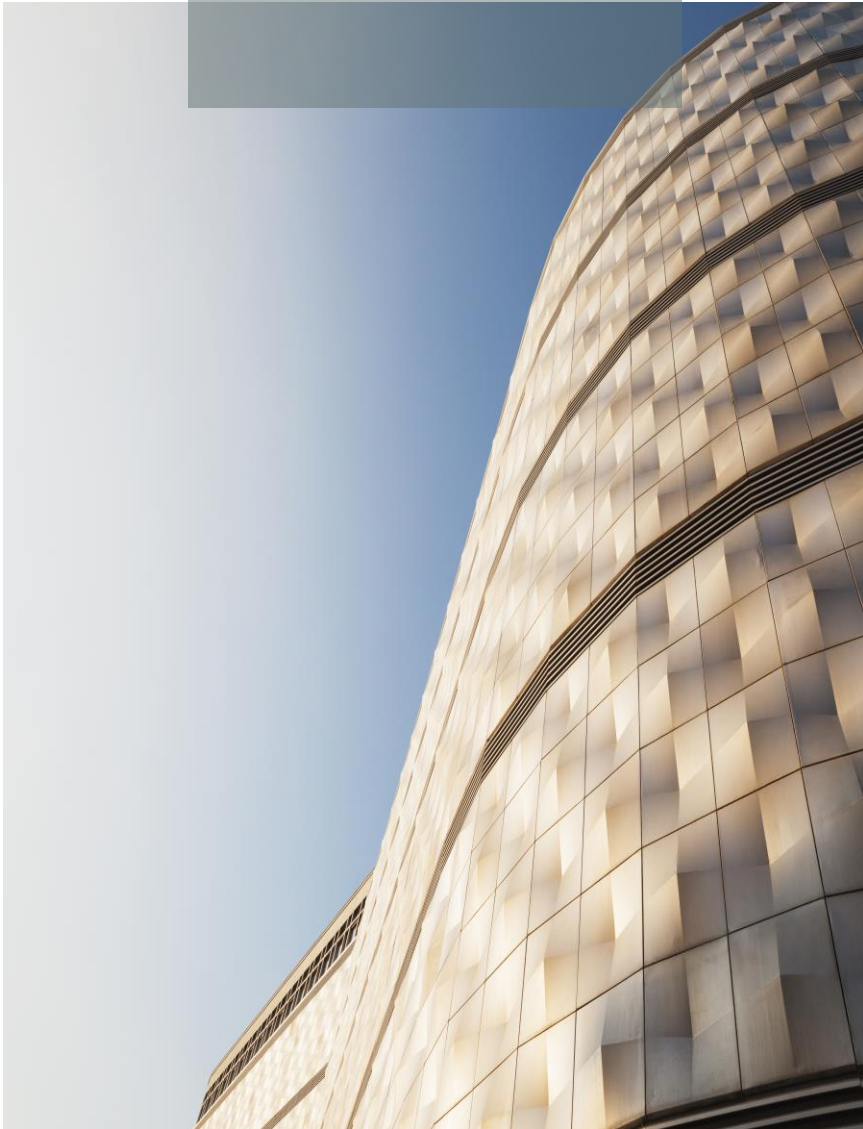
- Jamie Kingsley, RS Director
- Joe D'Alessandro, NCREIF
- Ken Robinson, CFA Institute
- Benay Kirk, RS Council, AlterDomus
- Christy Daniels, Acctg Comm Chair, Principal
- Michelle Clements, Citco
- Lauren DeMartini, MetLife
- Susan Kelly, GID
- Matt Racketta, Townsend Group
- Tracy Green, Hillwood
- Jan Johnson, L&B Realty
- Marilyn Ramirez, Vistra

## Performance Disclosure

- Jamie Kingsley, RS Director
- Joe D'Alessandro, NCREIF
- Maritza Matlosz, NCREIF Board, MetLife
- Ken Robinson, CFA Institute
- Benay Kirk, RS Council, AlterDomus
- David DiPaolo, RS Council, Clarion Partners
- Diane Wild, RS Council, LaSalle
- Paul D'Elisa, RS Council, Sentinel Corporation
- Rosellen Bounds, Performance Comm Chair, ACA Group
- Kim Everaerts, Performance Vice Chair, Walton Street
- Brienna Mancuso, JP Morgan
- Karol Vogel, Principal
- Christina Metcalf, GID
- Bob Redican, Nuveen
- Julian Worthington, QuadReal Property Group
- Brenden Fullum, Rockpoint







# ATTENDANCE CODE

- Check-in via the conference app
- Code: **accpmc0327**
- Paper sign-in available at the registration desk

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# FEE AND EXPENSE TASK FORCE AGENDA

- Rule Requirements
- Approach and Assumptions
- Example Table



# FEE AND EXPENSE DISCLOSURE RULE REQUIREMENTS

- **Adviser Compensation**
  - Includes Compensation, Fees & Other Amounts Allocated or Paid to the Adviser or any of its Related Persons
- **Fund Expenses**
  - Include Fees and Expenses Allocated to or paid by the Private Fund not included in Adviser Compensation
- **Offsets, Rebates, and Waivers**
  - Adviser Compensation and Fund Expenses must be shown before and after the application of any offsets, rebates, or waivers
- **Carry Forward**
  - The amount of any offsets, rebates or waivers carried forward to subsequent periods to reduce future payments
- **Portfolio Investment Table**
  - Separate table containing detailed accounting of compensation allocated or paid to the advisor by the private fund's covered portfolio investments (i.e., compensation only, not other expenses)

No miscellaneous or de minimus categories

Must include calculation methodology and cross reference organizational and offering documents



# TASK FORCE APPROACH AND ASSUMPTIONS

## Leverage work done for TGER

- **Incentive fees/Promote** - include accrued vs. paid. Report would include the accrued amount including amounts realized and unrealized
- **Fees/expenses – Accrued or paid?**  
Report the accrued amount including amounts paid
- **Fees paid outside of the fund – To be included**

## Assumptions Made

**Delivery method** - Include in the client current quarterly report or send as a separate deliverable?

Can be delivered at the advisor's discretion as long as delivery is tracked and delivered by the due date.

**What if fees/expenses are not final?** True-up next quarter

**What does Allocated mean?** "Allocated" is equivalent to Accrued

**Include QTD/YTD/Rolling 12 months?** Include QTD at a minimum

**Capitalized Fees** – should be included

## Approach

Categories within the example are illustrative and not meant to be exhaustive. Registered Investment Advisors should customize the report based on their types of fees/expenses. Line items may be expanded, added, modified and deleted as needed.





# EXAMPLE TABLE

## SEC Private Fund - Quarterly Statement Example

For the Quarter Ended March 31, 2025

Deliver within 45 (or 75 for FOF) days each quarter and 90 (or 120 for FOF) days each fiscal year end

The NCREIF PREA Reporting Standards has created this template. Categories within the example are illustrative and not meant to be exhaustive. Registered Investment Advisors should customize the report based on their types of fees/expenses. Line items may be expanded, added, modified and deleted as needed.

Fund Table:	BEFORE OFFSETS, REBATES & WAIVERS			AFTER OFFSETS, REBATES & WAIVERS			OFFSETS OR REBATES CARRIED FORWARD			Fund Governing Documents Ref (Document Date/Section #)	Calculation Method/Basis
	1Q2025	True-up from prior Quarter	Total	1Q2025	True-up from prior Quarter	Total	Offsets or Rebates Carried Forward	True-up from prior Quarter	Total		
<i>During the reporting period (or 2 periods for new fund)</i>											
<b>Compensation, Fees &amp; Other Amounts Allocated or Paid to the Adviser or any of its Related Persons</b>											
Fund Management											
Fund Advisory											
Fund Sub Advisory											
Performance-Based Compensation											
<b>Total</b>											



# EXAMPLE TABLE (CONT'D)

	1Q2025	True-up from prior Quarter	Total	1Q2025	True-up from prior Quarter	Total	Offsets or Rebates Carried Forward	True-up from prior Quarter	Total	Fund Governing Documents Ref (Document Date/Section #)	Calculation Method/Basis
<b>Fees and Expenses Allocated to or paid by the Private Fund</b>											
Asset Management Fees											
Wind up Fees											
Financing Fees											
Subscription Fees											
Commitment Fees											
Distribution Fees											
Custodian Fees											
Securities Handling Fees											
Acquisition Fee											
Disposition Fee											
Project Management Fee											
Fund Administration Expense											
Placement Agent Costs											
Consulting Expense											
Dead Deal Costs											
Organizational Cost											
Entity Formation Costs											
Entity Filing Expense											
Legal Expense											
Audit Expense											
Appraisal Expense											
Transfer Agent Costs											
Travel Cost											
Trustee Expense											
Insurance Expense											
Bank Costs											
Tax Expense											
<b>Total</b>											



# EXAMPLE TABLE (CONT'D)

**BEFORE OFFSETS, REBATES & WAIVERS**

**AFTER OFFSETS, REBATES & WAIVERS**

**OFFSETS OR REBATES CARRIED FORWARD**

<b>Portfolio Investment Table:</b>	1Q2025	True-up from prior Quarter	Total
<i>During the reporting period (or 2 periods for new fund)</i>			
<b>All portfolio investment compensation allocated or paid by each covered portfolio investment</b>			
Origination - Portfolio A			
Origination - Portfolio B			
Acquisition - Portfolio X			
Acquisition - Portfolio Z			
Disposition - Portfolio D			
Property Management Fees - Portfolio Y			
<b>Total</b>			

1Q2025	True-up from prior Quarter	Total

Offsets or Rebates Carried Forward	True-up from prior Quarter	Total

Fund Governing Documents Ref (Document Date/Section #)	Calculation Method/Basis



# PERFORMANCE DISCLOSURE TASK FORCE AGENDA

- Illiquid and Liquid Fund Determination
- Liquid Fund Performance Disclosure Requirements
- Illiquid Fund Performance Disclosure Requirements
  - IRR Discussion and Examples
    - Rule definitions of Gross and Net IRR
    - Applicable Reporting Standards guidance
    - Example Net IRR With and Without Fund-level Subscription Facilities
    - Statement of Contributions and Distributions
    - Unrealized and Realized Portion of the Fund's Portfolio
    - Work in Progress or Yet to be Done



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Illiquid vs  
Liquid Fund  
Determination

Illiquid Fund: Private Fund that (i) is not required to redeem upon an investor's request and (ii) has limited opportunities, if any, for investors to withdraw before termination of the fund.

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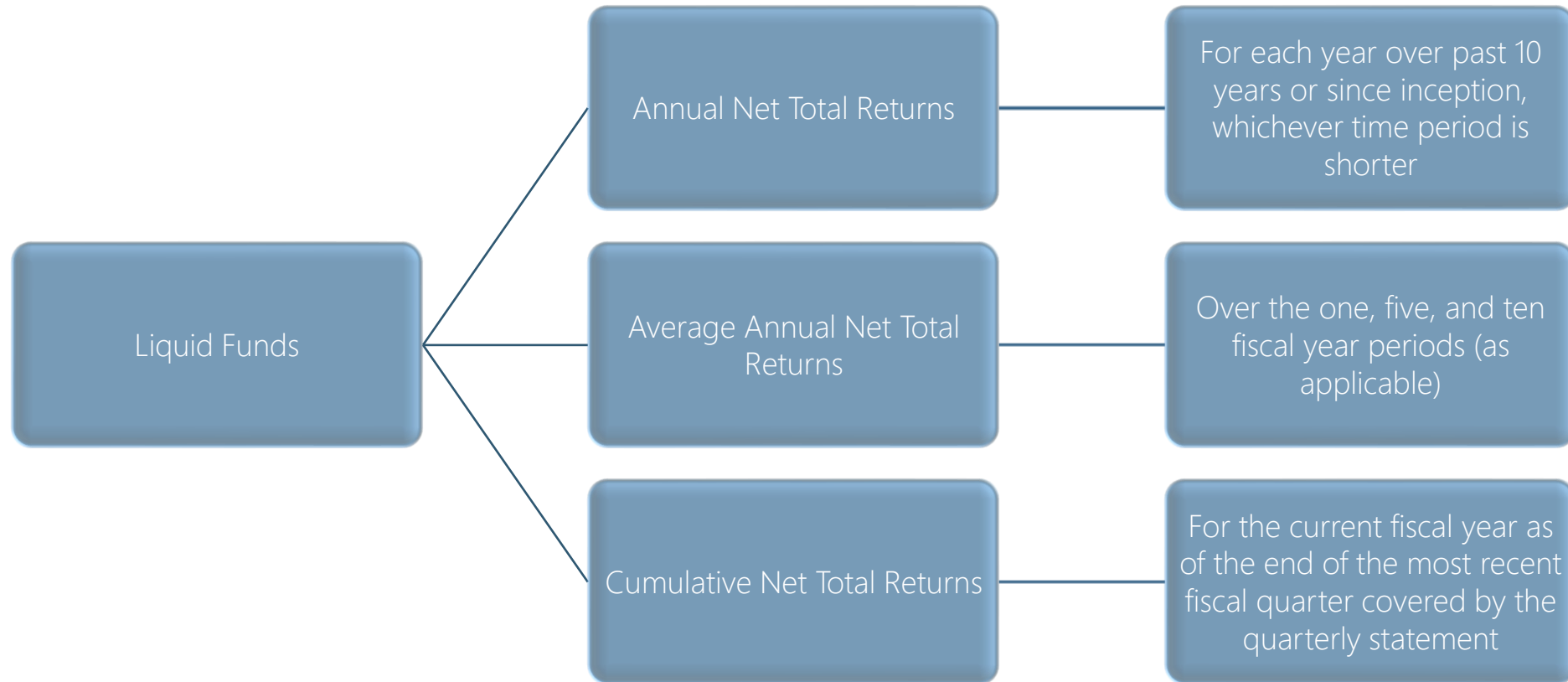
Liquid Fund: Private Fund that is not an illiquid fund.

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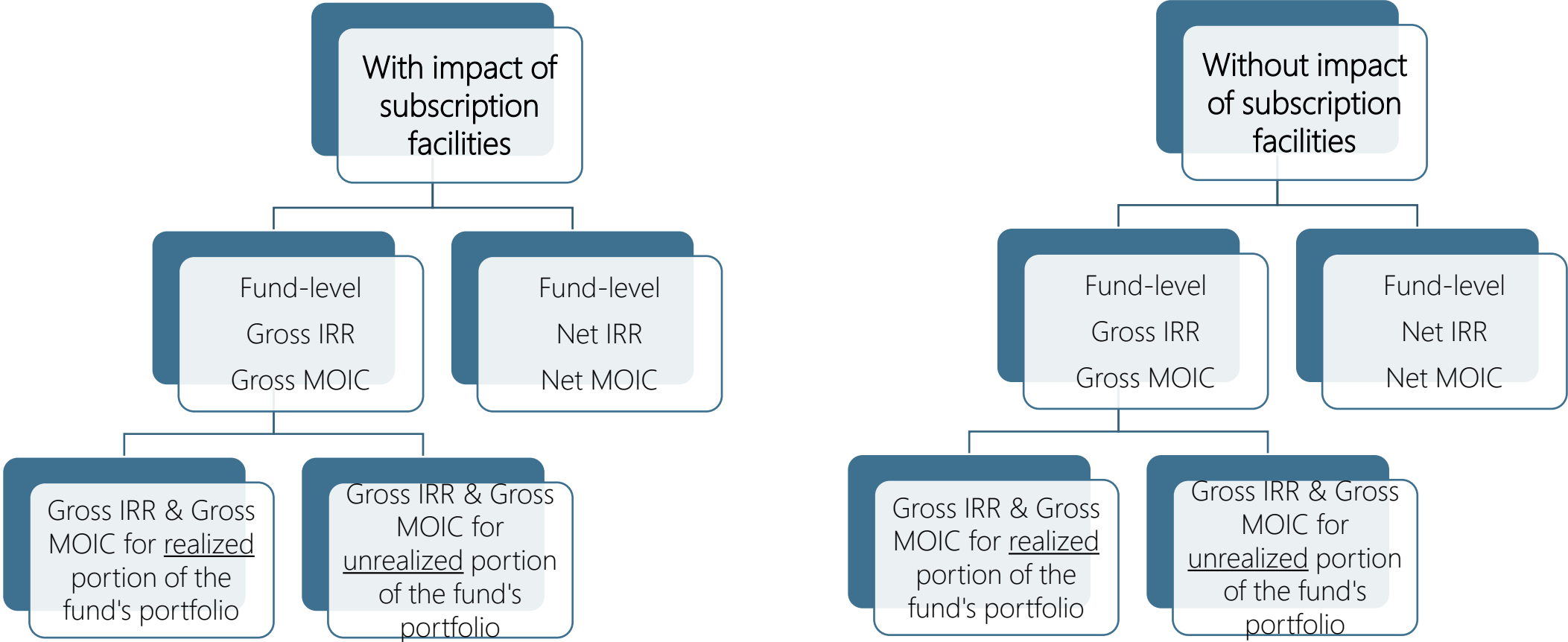




# LIQUID FUND PERFORMANCE DISCLOSURE REQUIREMENTS (TWR BASED)



# ILLIQUID FUND PERFORMANCE DISCLOSURE REQUIREMENTS (IRR BASED)



# RULE DEFINITION OF GROSS AND NET IRR

**Gross IRR** means an internal rate of return that is calculated gross of all fees, expenses, and performance-based compensation borne by the private fund.

**Net IRR** means an internal rate of return that is calculated net of all fees, expenses, and performance-based compensation borne by the private fund.



# ALIGNMENT WITH REPORTING STANDARDS

**Required: Closed-end Equity and Debt Funds: Required upon request of investor: SMAs:**

**PR.06: Since-inception Internal Rate of Return (IRR), gross and net of fees (Quarterly):** The IRR is the annualized implied discount rate (effective compounded nominal rate) that equates the present value of all appropriate cash inflows associated with an investment with the sum of the present value of all appropriate cash outflows accruing from it and the present value of the unrealized residual investment.

*Additional required disclosures: the following disclosures must accompany the presented element:*

**PR.06.1: Gross of fees:** The Compliant Report must clearly disclose the type/level of gross IRR reporting. Level 1a, 1b, or 2 is preferred for gross of fee reporting.

- ✓ Level 1a: Gross IRR before investment management fees and Fund costs. Uses cash flows from Fund (regardless of cash source) to investment.
- ✓ Level 1b: Gross IRR before investment management fees and Fund costs. Uses cash flows from investors to Fund. Level 1b aligns with PFA Rule definition
- ✓ Level 2: Fund Gross IRR after deduction for Fund costs but before fees. Uses cash flows from investors to Fund after deduction of Fund costs but before fees.



# REPORTING STANDARDS RESOURCES

- [Total Global Expense Ratio \(TGER\)](#)
- [NCREIF PREA Reporting Standards research document: Gross and Net IRR, adding transparency and comparability to Closed-end Fund performance and Investor Specific Reporting, August 23, 2019](#)
- [NCREIF PREA Reporting Standards Handbook Volume I](#)
- [NCREIF PREA Reporting Standards Performance and Risk Manual](#)







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ESG REPORTING

SEC PFA RULE

CURRENT PROJECTS

EDUCATION + PRESENTATIONS

HOME > SEC PFA Rule

## SEC Private Fund Advisor Rule

Submit questions to [administrator@reportingstandards.info](mailto:administrator@reportingstandards.info)

On August 23, 2023, the Securities and Exchange Commission (SEC) voted to adopt new rules and amendments to enhance the regulation of private fund advisers. The new rules would require the private fund advisers registered with the SEC to:

- Provide investors with quarterly statements detailing information regarding private fund performance, fees, and expenses;
- Obtain an annual audit for each private fund; and
- Obtain a fairness opinion or valuation opinion in connection with an adviser-led secondary transaction.

### Quick Links

[Frequently Asked Questions \(Coming Soon\)](#)

[SEC Private Fund Advisers Rule](#)

[Reporting Standards Project Prospectus](#)

[Exhibit A to Prospectus](#)



# EXAMPLE NET IRR CALCULATION



# KEY CONSIDERATIONS

## IMPACT OF SUBSCRIPTION FACILITY

### SUBLINE CASH FLOWS

- Drawdowns are reflected as contributions
- Paydowns are reflected as distributions

### INTEREST EXPENSE

- Add back interest expense using date interest was paid
- Contra-contribution or distribution
- Make sure to capture expense & capitalized interest

### UNCALLED FEE

- Add back uncalled fee using date fee was paid

### FINANCING COSTS

- Add back financing costs to secure subline at time of payment
- If that information is not easily obtained, add back amortization in period recognized

### DERIVATIVES

- Caps or swaps utilized for floating rate debt, make a determination if you'd add it back in.



# NET IRR EXAMPLE

Date <sup>1,2</sup>	Contribution	Distribution	Liquidation NAV at Fund Gross of Fee & Expense <sup>4</sup>	Liquidation (Subline Debt Balance)	Subline Drawdown (Contribution)	Subline Paydown (Distribution)	Subline Overhead <sup>3</sup>	Expense & Asset Management Fee	Incentive	Total cash flow with subline (Net)	Total cash flow without subline (Net)
4/18/2023	-	-	-	-	(29,917,000.00)	-	-	-	-	-	(29,917,000.00)
4/24/2023	-	-	-	-	(35,956,000.00)	-	-	-	-	-	(35,956,000.00)
4/30/2023	-	-	-	-	-	-	184,444.10	-	-	-	184,444.10
6/30/2023	-	-	-	-	-	-	-	225,000.00	1,000,000.00	(1,225,000.00)	(1,225,000.00)
7/6/2023	(10,306,655.60)	-	-	-	-	-	-	-	-	(10,306,655.60)	(10,306,655.60)
7/7/2023	-	-	-	-	-	10,600,000.00	-	-	-	-	10,600,000.00
7/10/2023	-	-	-	-	(91,460,000.00)	-	-	-	-	-	(91,460,000.00)
7/31/2023	-	-	-	-	-	-	988,375.29	-	-	-	988,375.29
8/2/2023	-	-	-	-	(960,000.00)	-	-	-	-	-	(960,000.00)
8/10/2023	(1,264,023.80)	-	-	-	-	-	-	-	-	(1,264,023.80)	(1,264,023.80)
8/14/2023	-	-	-	-	-	1,300,000.00	-	-	-	-	1,300,000.00
8/17/2023	-	-	-	-	(1,500,000.00)	-	-	-	-	-	(1,500,000.00)
8/22/2023	(50,852,649.79)	-	-	-	-	-	-	-	-	(50,852,649.79)	(50,852,649.79)
8/25/2023	-	-	-	-	-	52,300,000.00	-	-	-	-	52,300,000.00
8/28/2023	-	-	-	-	(49,370,000.00)	-	-	-	-	-	(49,370,000.00)
8/31/2023	-	-	-	-	(1,200,000.00)	-	1,151,176.32	-	-	-	(48,823.68)
9/29/2023	-	-	-	-	(1,100,000.00)	-	-	-	-	-	(1,100,000.00)
9/30/2023	-	5,000,000.00	60,842,570.99	147,263,000.00	-	-	1,136,382.07	225,000.00	1,000,000.00	64,617,570.99	213,016,953.06
<b>Total</b>	<b>(62,423,329.19)</b>	<b>5,000,000.00</b>	<b>60,842,570.99</b>	<b>147,263,000.00</b>	<b>(211,463,000.00)</b>	<b>64,200,000.00</b>	<b>3,460,377.78</b>	<b>450,000.00</b>	<b>2,000,000.00</b>	<b>969,241.80</b>	<b>4,429,619.58</b>
<b>XIRR</b>										<b>12.20%</b>	<b>8.30%</b>
<sup>1</sup> Unlevered calculation begins with first Subline/LOC Drawdown.											
<sup>2</sup> Levered calculation begins with first LP Capital Call, with the exception of net, where fund level fees & expenses begin at first period recognized.											
<sup>3</sup> Includes subline interest, both capitalized and expensed, the quarterly uncalled fee, financing cost amortization for the subline and cost of derivatives if applicable.											
<sup>4</sup> NAV per Statement of Changes in Net Assets	60,392,570.99										
Fund Level Expense & Fee Load ITD	450,000.00										
<b>NAV Gross of Expense &amp; Fee</b>	<b>60,842,570.99</b>										



# STATEMENT OF CONTRIBUTIONS AND DISTRIBUTIONS

Defined as a document that presents:

- (i) All capital inflows the private fund has received from investors and all capital outflows the private fund has distributed to investors since the private fund's inception, with the value and date of each inflow and outflow; and
- (ii) The net asset value of the private fund as of the end of the reporting period covered by the quarterly statement.

These cash flows would tie to the cash flows used in the Net IRR calculation with impact of subscription facilities.





# UNREALIZED/REALIZED PORTION OF FUND'S PORTFOLIO



# UNREALIZED/REALIZED PORTION OF FUND'S PORTFOLIO

"The rule requires advisers to illiquid funds to disclose the following performance measures in the quarterly statement, shown since inception of the illiquid fund and computed with and without the impact of any fund-level subscription facilities:

(iii) Gross internal rate of return and gross multiple of invested capital for the realized and unrealized portions of the illiquid fund's portfolio, with the realized and unrealized performance shown separately."

Discussion points:

1. No SEC guidance on how to interpret and likely will not be until much later
2. What is considered realized and unrealized?
3. Which cash flows should be used – fund level or investment level?
4. How will impact of fund-level subscription facilities be allocated if investment level cash flows are used?



# UNREALIZED/REALIZED PORTION OF FUND'S PORTFOLIO

Survey conducted before the NCREIF Spring Conference

- Purpose of the survey was to gather information as to current thinking on this section of the Quarterly Statement Rule
- Sent to the Accounting and Performance Measurement Committees
- 27 respondents
- Summary of Results
  - Diversity in interpretation (fund level vs investment level) and application (many are undecided at this point)
  - Need for guidance exists!

Survey results are included in the Appendix of this presentation and are for information purposes only.



# WORK IN PROGRESS OR YET TO BE DONE

## Work in Progress

- Fund-Level Gross IRR
- Gross IRR for realized and unrealized portion of fund's portfolio

## Work Yet to be Done

- Fund-Level Multiple of Invested Capital (MOIC): Gross and Net
- Gross MOIC for realized and unrealized portion of fund's portfolio
- Liquid Funds – TWR



# ESTIMATED PROJECT TIMELINE

## RS WEBSITE UPDATE

Dedicated page added by EOM March 2024  
Reportingstandards.info



## CONFERENCE UPDATES

Presentations at Sponsor Conferences in March 2024

## WEBINAR UPDATES

Webinars projected to be held Mid-May 2024 and Mid-August 2024

## DRAFT GUIDANCE DOCUMENT

Target RS Council and Board approval by EOM September 2024

## ISSUE GUIDANCE DOCUMENT

Present Guidance Document at Sponsor Conferences in October 2024



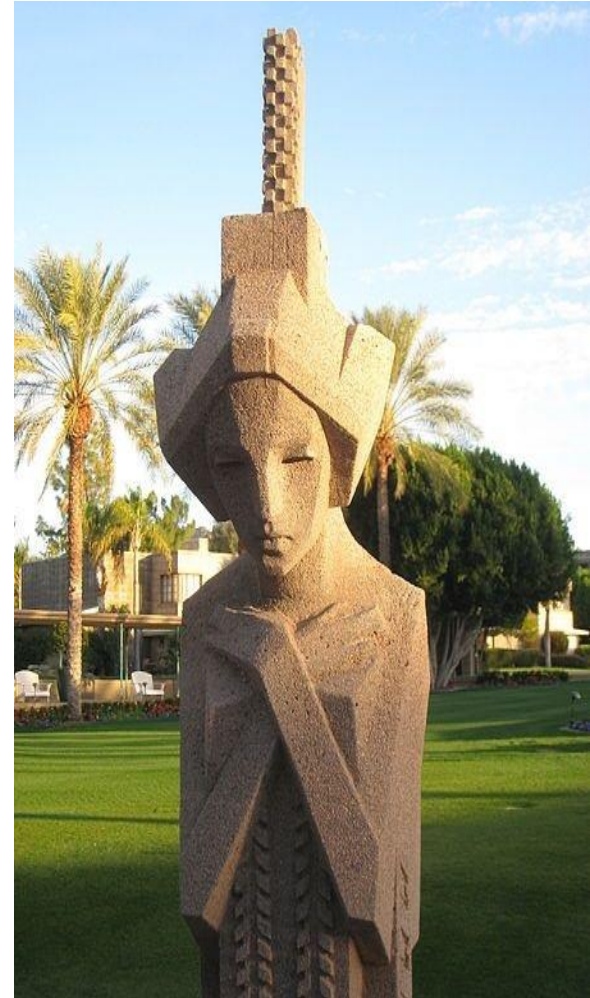
# Q & A DISCUSSION





THANK YOU

[www.reportingstandards.info](http://www.reportingstandards.info)



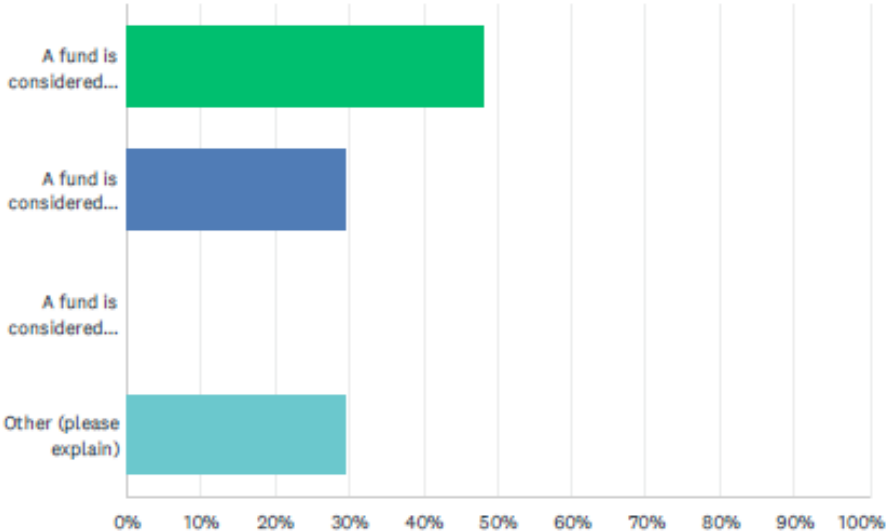
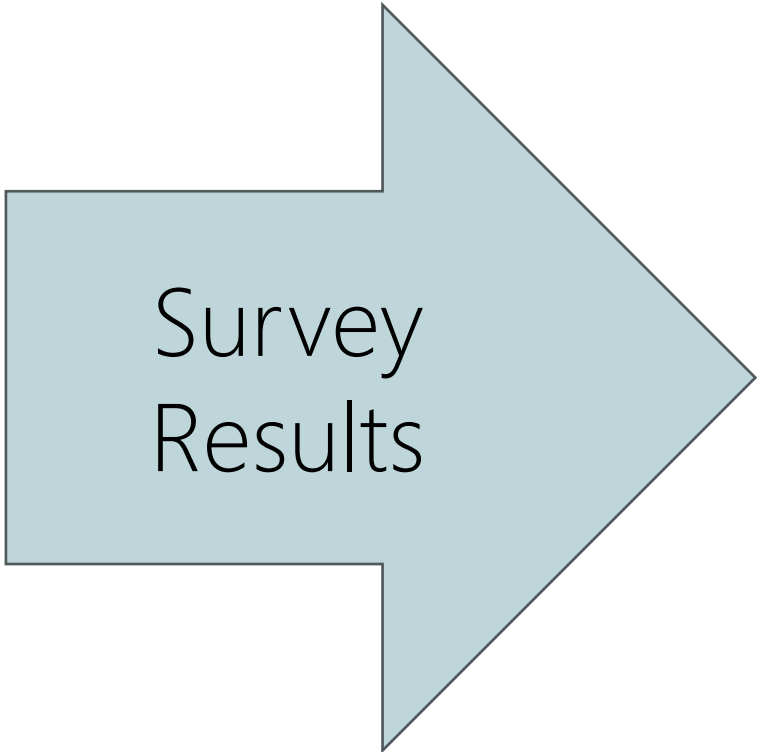
# APPENDIX





### Q1 What is your firm's definition of realized (at the fund level)? Check all that apply

Answered: 27 Skipped: 0

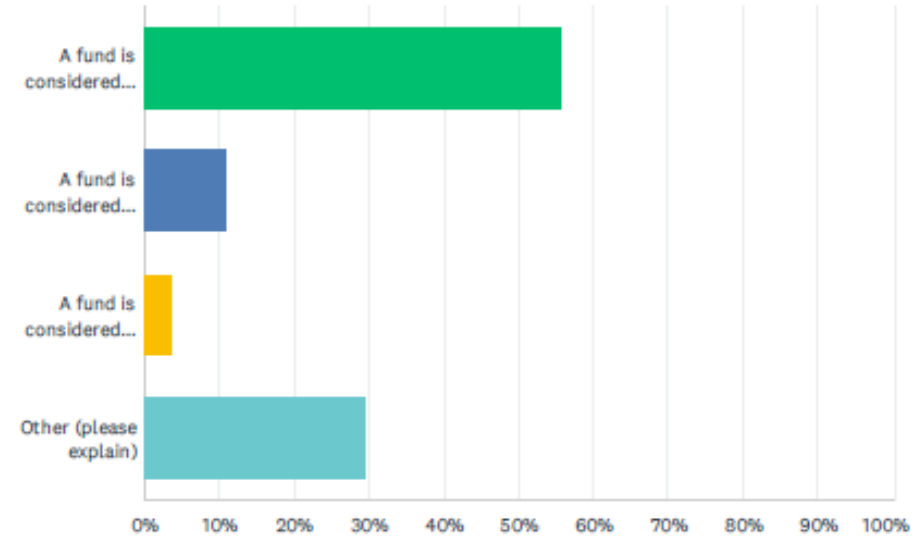


ANSWER CHOICES	RESPONSES	
A fund is considered realized when all the investments are sold and all of the invested capital is returned to the investors.	48.15%	13
A fund is considered realized when all the investments are sold and/or when more than 90% of the invested capital is returned to the investors.	29.63%	8
A fund is considered realized when investments are partially sold and invested capital is not distributed to investors.	0.00%	0
Other (please explain)	29.63%	8
Total Respondents: 27		

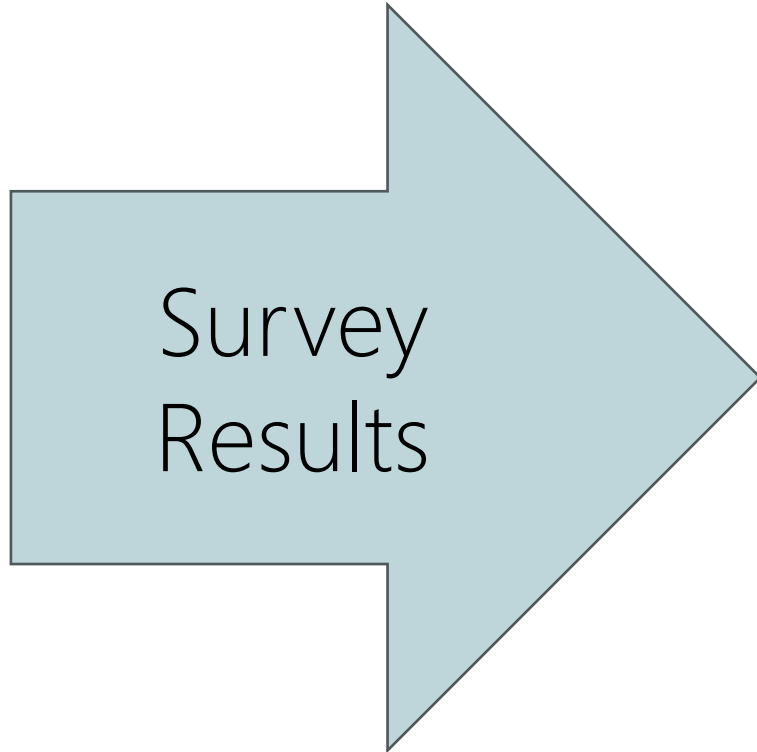


## Q2 What is your firm's definition of unrealized (at the fund level)?

Answered: 27 Skipped: 0

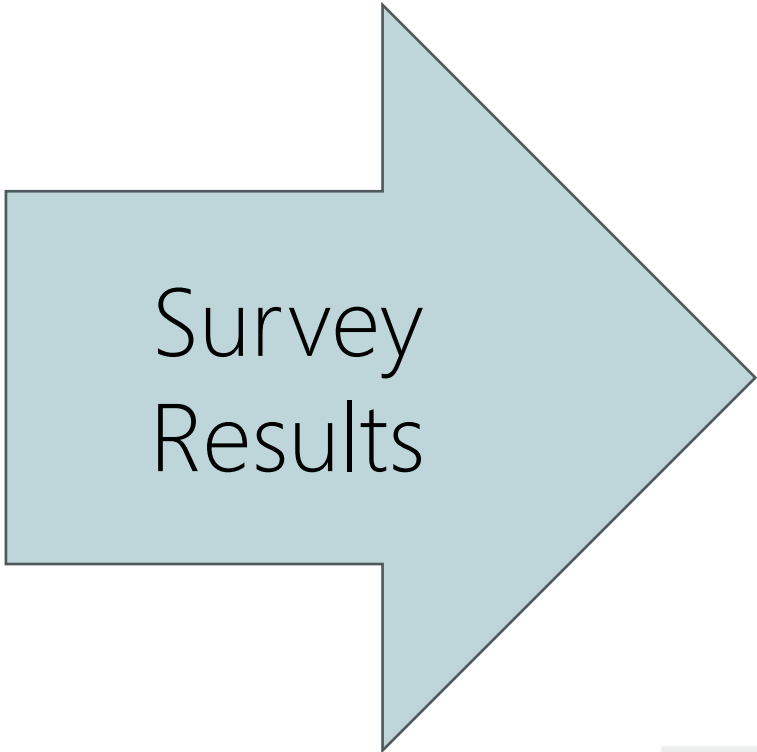
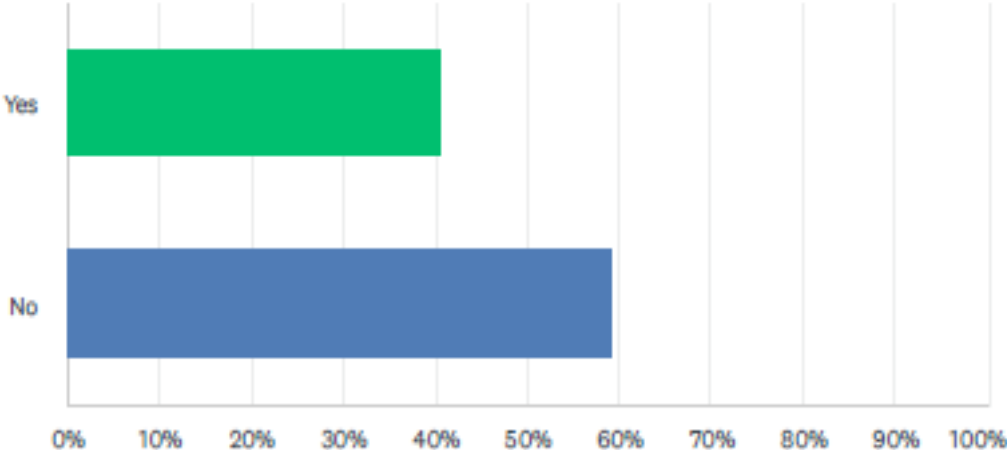


ANSWER CHOICES	RESPONSES	
A fund is considered unrealized when all investments are not sold.	55.56%	15
A fund is considered unrealized when all investments are sold and invested capital is not distributed to investors.	11.11%	3
A fund is considered unrealized when investments are partially sold and invested capital is not distributed to investors.	3.70%	1
Other (please explain)	29.63%	8
<b>TOTAL</b>		<b>27</b>



### Q3 Does either differ at the property level?

Answered: 27 Skipped: 0

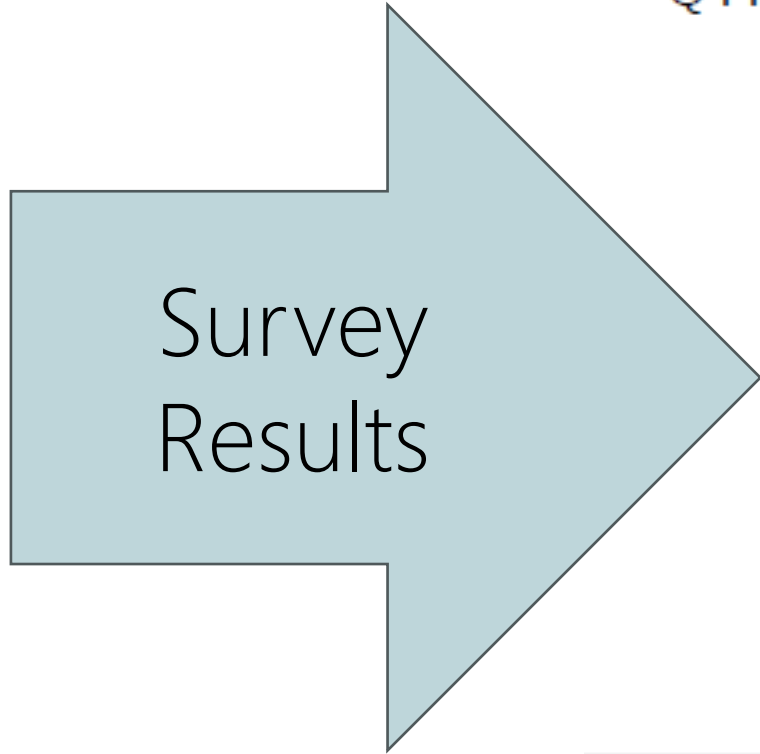
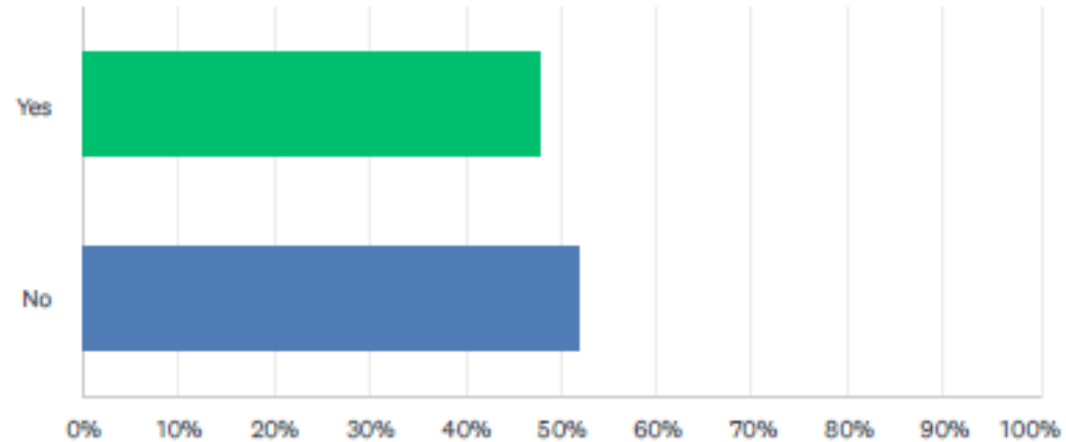


ANSWER CHOICES	RESPONSES	
Yes	40.74%	11
No	59.26%	16
TOTAL		27



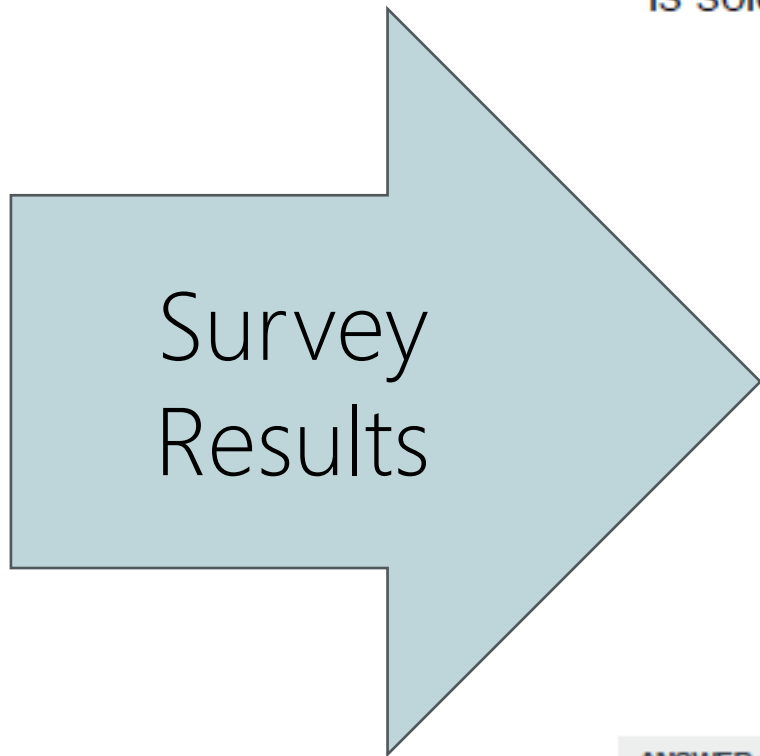
### Q4 Has your firm interpreted the rule that the unrealized and realized portions are at the fund level?

Answered: 25 Skipped: 2



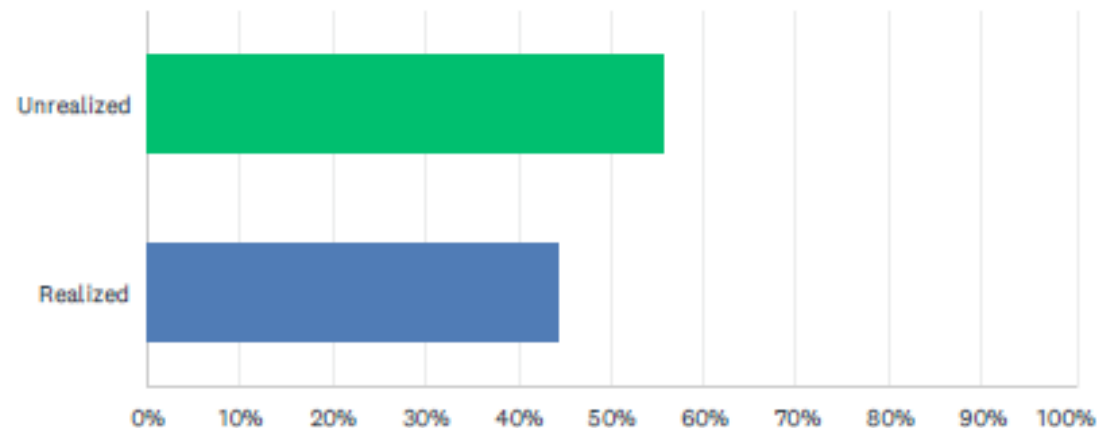
ANSWER CHOICES	RESPONSES	
Yes	48.00%	12
No	52.00%	13
TOTAL		25





Q5 If your firm has a situation where there is one property in the fund that is sold but the proceeds are not distributed, would your firm deem that fund to be:

Answered: 27 Skipped: 0

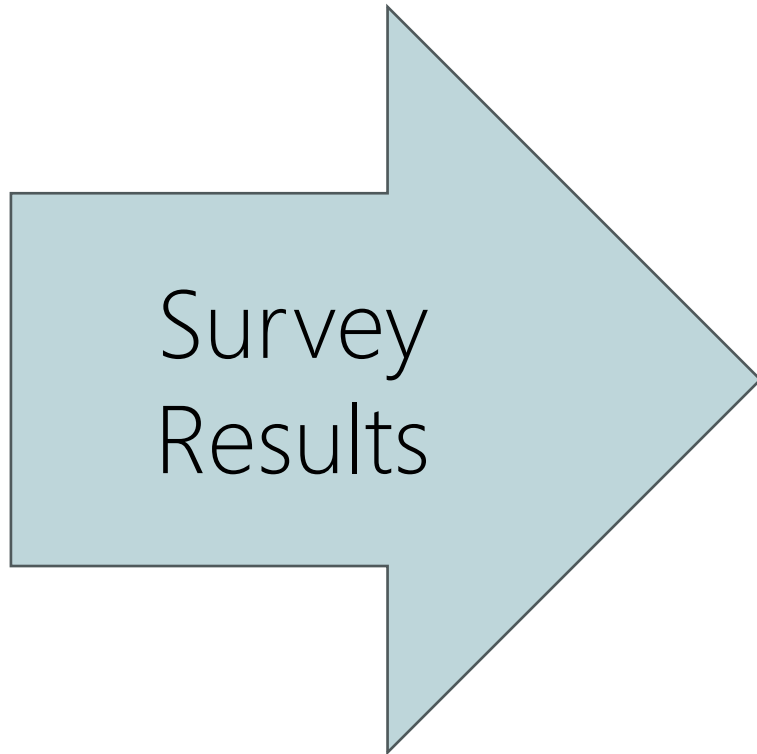
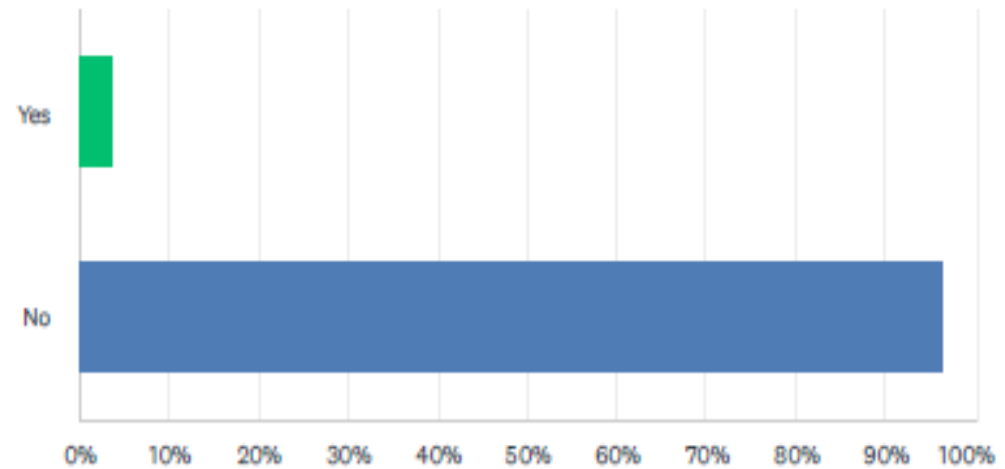


ANSWER CHOICES	RESPONSES
Unrealized	55.56% 15
Realized	44.44% 12
TOTAL	27



### Q6 Has your firm allocated expenses at the fund level between unrealized and realized historically?

Answered: 27 Skipped: 0

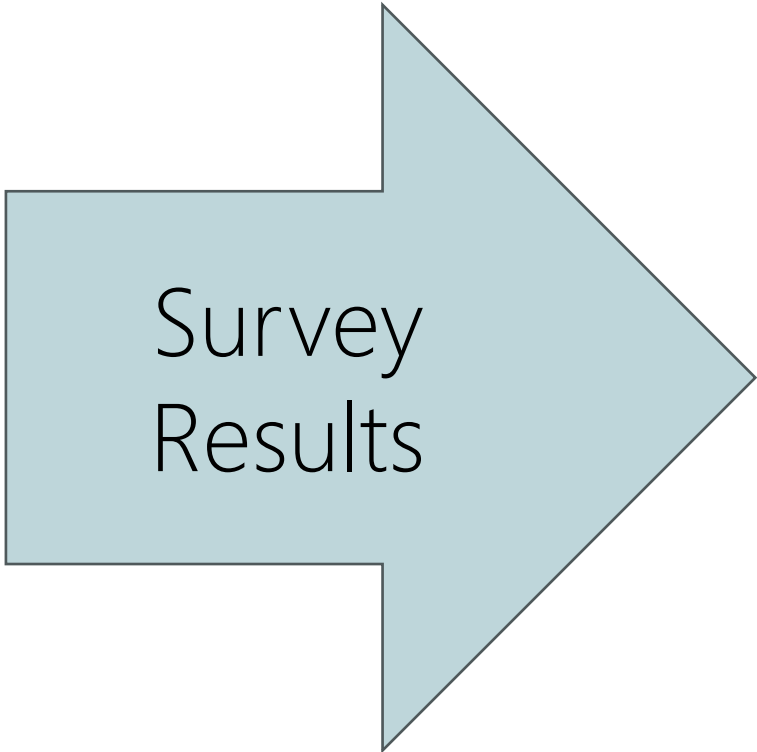
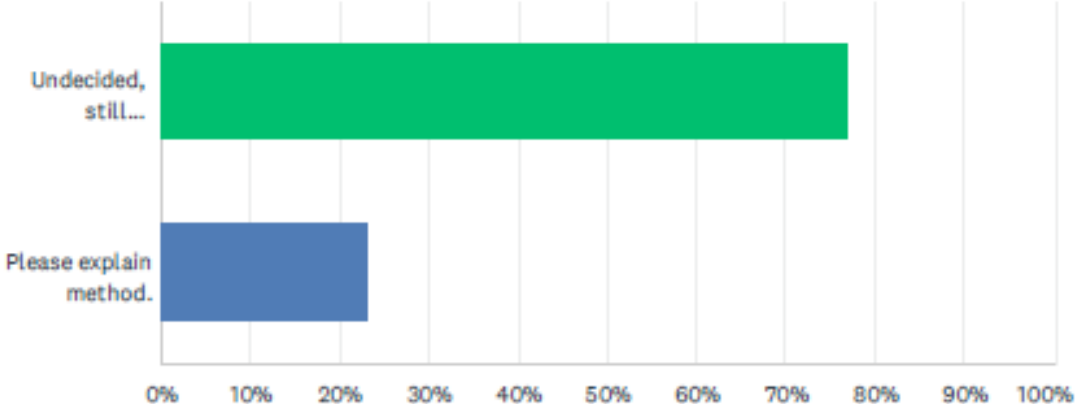


ANSWER CHOICES	RESPONSES	
Yes	3.70%	1
No	96.30%	26
<b>TOTAL</b>		<b>27</b>



### Q7 If not, what methodology will your firm employ?

Answered: 26 Skipped: 1

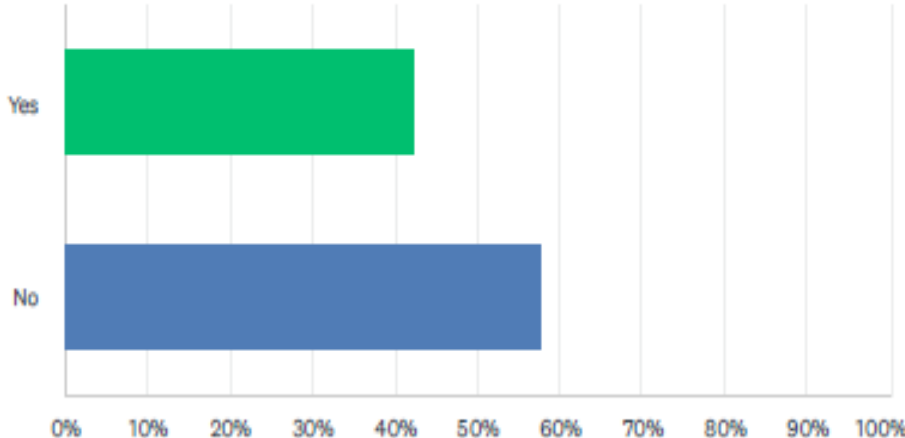


ANSWER CHOICES	RESPONSES
Undecided, still evaluating	76.92% 20
Please explain method.	23.08% 6
<b>TOTAL</b>	<b>26</b>



### Q8 Does your firm have the ability to calculate a property level return using the fund subline of credit?

Answered: 26 Skipped: 1



ANSWER CHOICES	RESPONSES
Yes	42.31% 11
No	57.69% 15
TOTAL	26

