



Wrap Survey: Morgan Stanley PPA Program

Recently we received a number of questions about how assets managed for the Morgan Stanley PPA program should be treated for both Form ADV assets under management (AUM) reporting as well as Global Investment Performance Standards (GIPS®) compliance purposes. Officially named the Personal Portfolio Program, but commonly referred to as the PPA program, this program is quite different from other wrap programs as portfolio trading responsibilities are shared by Morgan Stanley (the overlay manager) and the portfolio manager. For example, Morgan Stanley is responsible for investing initial and additional cash contributions following the portfolio manager's current model. The portfolio manager's primary responsibility is applying any changes in their model portfolio to all existing accounts. Because investment discretion is shared, numerous questions are raised concerning firm assets and composite assignment. We decided to conduct an informal survey to determine how managers currently in this program are addressing these issues. We identified ten firms that currently manage PPA assets, two firms that are currently considering doing so, and several firms that considered but decided to not participate in the PPA program. The responding firms range in size from approximately \$3 billion in AUM to over \$500 billion and include several well known firms. Responses from the ten that do participate are shown in the chart below. The questions and responses are as follows:

Do you include Morgan Stanley PPA assets in assets under management (AUM) for Form ADV reporting purposes?

Six firms include PPA assets in AUM for Form ADV reporting while four firms do not. The firms that do not include these assets in either Form ADV AUM or GIPS firm assets explained that they view these assets as "model-only."

If you do include PPA assets in AUM for Form ADV reporting purposes, do you classify them as discretionary or non-discretionary assets?

Of the six firms that include PPA assets in AUM, five count PPA assets as discretionary, and one firm classifies these assets as non-discretionary.

Do you include such assets in firm assets for GIPS reporting purposes?

Five firms include PPA assets in firm assets for GIPS reporting purposes while five firms exclude the assets.

If you do include such assets in GIPS firm assets, do you classify them as discretionary or non-discretionary assets for composite assignment purposes?

Of the five firms that do count PPA assets in their total firm assets for GIPS purposes, three firms classify the assets as non-discretionary while two firms classify the assets as discretionary.

We also asked firms to provide any other comments or information, including reasons for their decisions.

The comments underscored the lack of consensus in the marketplace regarding this program and the difficulty firms had in deciding how to handle these assets. One respondent said, "Of course they are a model; how could anyone say something different?"

On the other hand, another firm said, "Operationally it would be easier for us to exclude this program from our composite, but in reviewing the relationship we felt it was hard to justify excluding the program as a model relationship because contractually it was discretionary and there were not enough differences from other wrap programs to warrant exclusion." Another firm had a similar view, stating that their verification firm required them to include PPA assets in GIPS firm assets and classify them as discretionary for GIPS composite assignment purposes.

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	In Form ADV AUM?	Form ADV AUM: Discretionary or Non-Discretionary?	In GIPS firm assets?	GIPS: Discretionary or Non-Discretionary?
Firm 1	No	n/a	No	n/a
Firm 2	Yes	Non-Discretionary	Yes	Non-Discretionary
Firm 3	No	n/a	No	n/a
Firm 4	Yes	Discretionary	Yes	Non-Discretionary
Firm 5	Yes	Discretionary	Yes	Discretionary
Firm 6	Yes	Discretionary	Yes	Non-Discretionary
Firm 7	Yes	Discretionary	No	n/a
Firm 8	Yes	Discretionary	Yes	Discretionary
Firm 9	No	n/a	No	n/a
Firm 10	No	n/a	No	n/a

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Several firms who have considered or are considering the program mentioned the difficulty of shadow accounting these assets. Two firms stated that their policy is to perform shadow accounting for all wrap accounts that are not maintained directly on their own system. Because they could not obtain a direct feed of the trading information from the overlay manager they decided to not participate in the program.

Several firms acknowledged that shared discretion is common in an overlay program, but they viewed this program as different from other overlay programs. Some firms take a very narrow view of discretion and exclude from AUM and composites all such accounts, while other firms include them. Again, there was no consensus on this point.

One firm who has not yet enrolled in the program but is considering doing so, commented that they were having difficulty determining whether the firm has full discretion because, among other reasons noted above, the PPA platform blocks trading from approximately 11:00 am to 1:30/2:00 pm.

The complexity of this program is underscored by one firm who said that it took them more than a year to get through all the legal and compliance issues that this program raises.

One respondent who includes the assets in both ADV and GIPS assets stated that there were 4 factors in their decision to classify them as non-discretionary for GIPS composite assignment purposes: different fee structure compared to other wrap programs (making it difficult to justify the cost of shadowing accounts), lack of access to information at the sponsor, operational differences related to other wrap programs, and the

firm's assessment that Morgan Stanley has primary investment discretion.

So, what is a firm to do? Of course the first thing to do is to thoroughly read the PPA contract. Second, we suggest talking with your compliance department, and then your friendly lawyer or SEC consultant, to determine whether you will include the assets in ADV AUM, and if so, how the assets will be categorized.

If you do decide to include them in AUM, the next step is to consider existing GIPS guidance. Current GIPS guidance states that non-discretionary assets, assets for which the firm has conditional trading authority, should be included in firm assets. The guidance also states that assets within advisory-only client relationships should not be included in GIPS firm assets because the firm has no control over the implementation of the investment decisions and no trading authority for the assets. How your firm views this relationship will determine whether the assets will be included in GIPS firm assets. Finally, we recommend that you document the reasons for your decision. Additionally your verifier will be able to provide guidance on this issue.

We know that we've probably created more questions than answers on this subject. Our intent is to acknowledge that this is a unique program and there are many different views on how these assets are classified for calculating firm assets for ADV and GIPS. As you can see from other firms' comments, you are not alone on this issue! We recommend that you carefully review this program and utilize all internal and external resources to conclude on the classification of these assets.