



CONSTELLATION
ADVISERS, LLC

CLIENT ALERT: 20-02

Calculating Regulatory Assets Under Management Is Not Intuitive.

In preparation for the ADV deadline and the Regulatory filing season, we have compiled Answers to the 7 Most Frequently Asked Questions About Calculating RAUM.

Constellation Advisers has been receiving several questions related to calculating Regulatory Assets Under Management (RAUM). Accordingly, we have created this Frequently Asked Questions (FAQs) Client Alert to address the most common questions asked, which covers a variety of topics including:

- How to calculate RAUM
- Determining what constitutes a securities portfolio
- Examples for SMA and Private Fund Clients
- Describing what constitutes “uncalled capital commitments”
- Discussing how to treat short positions
- What sub-advisers should include when determining RAUM
- Whether disregarded assets impact the RAUM reported on Form ADV

The information provided below reflects the summarized opinions and understandings of Constellation based on information provided by the SEC, but is not intended to be legal advice and should not be relied upon without conducting further independent analysis.

1. How do I calculate RAUM?

RAUM consists of securities portfolios for which you provide continuous and regular supervisory or management services. Click [HERE](#) to see the SEC’s instructions for calculating RAUM in response to Form ADV, Item 5.F. Here’s a summary:

- An account is a **securities portfolio** if at least 50% of the total value of the account consists of securities. For purposes of this 50% test, treat cash and cash equivalents (i.e., bank deposits, certificates of deposit, bankers acceptances, and similar bank instruments) as securities. You must include securities portfolios that are:

(a) your family or proprietary accounts;

- (b) accounts for which you receive no compensation for your services; and
- (c) accounts of *clients* who are not *United States persons*.

- You provide **continuous and regular supervisory or management services** with respect to an account if:

(a) you have *discretionary authority* over and provide ongoing supervisory or management services with respect to the account; or

(b) you do not have *discretionary authority* over the account, but you have ongoing responsibility to select or make recommendations, based upon the needs of the *client*, as to specific securities or other investments the account may purchase or sell and, if such recommendations are accepted by the *client*, you are responsible for arranging or effecting the purchase or sale.

- The value of RAUM is the market value of the assets in your securities portfolios determined within 90 days prior to the date of filing the Form ADV and reflects the market value using the same method used to report account values to *clients* or to calculate fees for investment advisory services. **Do not deduct any outstanding indebtedness or other accrued but unpaid liabilities.**

Special rules for private funds:

- Treat all of the assets of a *private fund* as a securities portfolio.
- Determine the current market value (or fair value) of the *private fund's* assets **and include the contractual amount of any uncalled commitment** pursuant to which a *person* is obligated to acquire an interest in, or make a capital contribution to, the *private fund*.

2. What are examples of how to calculate RAUM?

Example 1 – account of a client other than a private fund (taken from the Form ADV instructions, which is available using the link above). Assume the client's portfolio consists of the following:

- \$6,000,000 stocks and bonds
- \$1,000,000 cash and cash equivalents
- \$3,000,000 non-securities (collectibles, commodities, real estate, etc.)
- \$10,000,000 Total Assets

First, is the account a securities portfolio? The account is a securities portfolio because securities as well as cash and cash equivalents ($\$6,000,000 + \$1,000,000 = \$7,000,000$) comprise at least 50% of the value of the account (here, 70%).

Second, does the account receive continuous and regular supervisory or management services? In this example, the entire account is managed on a discretionary basis and is provided ongoing supervisory and management services, and therefore receives continuous and regular supervisory or management services.

Third, what is included in RAUM? The entire value of the account ($\$10,000,000$) is included in the calculation of the adviser's total RAUM.

Example 2 – account of a private fund client. Assume the following:

- \$20,000,000 fair value or market value of the fund's assets
- \$1,000,000 cash and cash equivalents
- \$21,000,000 Total Gross Asset Value of Account
- \$179,000,000 uncalled capital commitments
- \$200,000,000 Total RAUM

First, is the account a securities portfolio? For private funds, treat all assets of the fund as a securities portfolio regardless of the nature of the assets held by the fund. Therefore, accounts of private fund clients constitute a securities portfolio.

Second, does the account receive continuous and regular supervisory or management services? In this example, the private fund is managed on a discretionary basis and is provided ongoing supervisory and management services, and therefore receives continuous and regular supervisory or management services.

Third, what is included in RAUM? The entire gross asset value of the account (\$21,000,000) plus the uncalled capital commitment (\$179,000,000) comprises the entire value of the private fund account (\$200,000,000), which is included in the calculation of the adviser's total RAUM.

3. What are "uncalled capital commitments"?

For private funds, "uncalled capital commitment" refers to the contractual amount pursuant to which a person is obligated to acquire an interest in, or make a capital contribution to, the private fund when called by the fund. See both the Form ADV instructions using the link provided above and the Form ADV Adopting Release by clicking [HERE](#).

4. Can I just use the Net Asset Value (NAV) of the client's account or fund?

No. Do not deduct any outstanding indebtedness or other accrued but unpaid liabilities. Accordingly, an adviser cannot deduct accrued fees, expenses, or the amount of any borrowing. In the case of pooled investment vehicles with a balance sheet, for instance, an adviser could include in the calculation the total assets of the entity as reported on the balance sheet. See the Form ADV Adopting Release using the link above.

5. How should I treat short positions for purposes of calculating RAUM?

If the private fund has a balance sheet, you may rely on the gross assets reflected on the balance sheet. Accordingly, you need not assess the value of these financial instruments in a manner different from that required under the applicable accounting standard.

For example, the short position should be included when it is an asset on the balance sheet in accordance with the applicable accounting standard.

Typically, a short sale will be recorded as a short sale liability (because the fund has an obligation to replace the security) together with an asset for the proceeds received or due

from the counterparty (e.g., cash received or due from a broker). In that case, the short sale liability would neither be included as an asset nor deducted from assets in the calculation of “gross asset value,” although the proceeds received would be included in “gross asset value.”

However, if the fund takes a short position using a derivative, the derivative itself may have a positive fair value and be recorded as an asset. In this case, the short position would be included as an asset in the calculation of “gross asset value.” See the SEC’s Form ADV FAQs [HERE](#).

6. I am a sub-adviser to a private fund, what should I include when calculating RAUM for the sub-advised fund?

A sub-adviser to a private fund would include in its RAUM only that portion of the value of the portfolio for which it provides continuous and regular supervisory or management services. See the Form ADV Adopting Release using the link above.

7. I have a Form PF filing requirement and advise funds or assets that may be disregarded for Form PF purposes, does that impact how I calculate RAUM on my Form ADV?

No. While the Form PF instructions permit advisers to disregard certain assets when determining RAUM for purposes of assessing whether the adviser is a large Form PF filer, those disregarded assets do not reduce the RAUM of the firm for Form ADV purposes. See SEC’s Form PF FAQs [HERE](#).

***If you have and questions or need assistance, please contact a member of
Constellation's compliance team for assistance at
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