



DONOR-ADVISED FUNDS

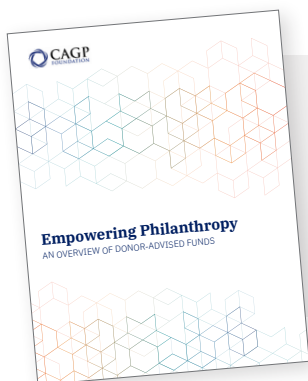
A RESOURCE FOR DAF FOUNDATIONS



DONOR-ADVISED FUNDS

Resource For DAF Foundations

This resource forms part of a set of four documents providing information on donor-advised funds to charities, donors, financial professionals, and DAF foundations. This particular document aims to provide information and guidance on the roles and responsibilities of donor-advised fund foundations. The complete set of resources is a product of CAGP's DAF Working Group, which is made up of practitioners, fundraisers, legal experts and researchers.



For a deeper dive, please see: [Empowering Philanthropy: An Overview of Donor-Advised Funds](#)

Definition and Summary

A donor-advised fund (DAF) is a fund established at a registered charity on behalf of an individual, multiple donors, a group, association or business. It allows donors to make a charitable gift, receive an immediate tax receipt, and recommend grants to specific charities over time.

DAFs are a simple and convenient vehicle for strategic charitable giving, allowing donors to centralize their donations and plan distributions to one or several registered charities for an extended period. DAFs are experiencing exponential growth, so it's important that each participant group understand their roles and responsibilities, and those of the other parties.

HOW DAF FOUNDATIONS WORK

There is little standardization in granting policies amongst the over 250 DAF foundations in Canada. This could change as these organizations aim to improve their services and match funding opportunities to donors with corresponding interests.

DAFs create an ongoing exchange of responsibilities between the donor, the DAF advisor (often one and the same) and the DAF foundation.

Legal and Administrative Obligations

- > The foundation is responsible for meeting all legal and regulatory requirements of DAFs and handling all administrative tasks.
- > DAF foundation boards have a fiduciary responsibility for the assets held in their DAFs.
- > A formal agreement between the DAF advisor and/or donor and the foundation allows DAF assets to be granted out based on specific recommendations.
- > The DAF advisor has no compliance or reporting obligations.

Disbursement Quota (DQ) Requirements

- > The annual disbursement quota is set by the Canada Revenue Agency (CRA) under the *Income Tax Act*.
- > The DQ is currently 5% of investment assets for foundations with over \$1 million in assets.
- > Meeting the DQ is the responsibility of the DAF foundation as it is based on the total of all assets held in their DAFs, not individual DAFs.

- > Some foundations include DQ-related terms in their agreements with donors, passing on the disbursement requirement to individual DAFs.

Resources and Stewardship

- > DAF Foundations should ideally provide educational and informational resources to charities to help them understand DAFs, manage grants and steward their donors.
- > When possible – and with the DAF advisor's consent – foundations should disclose the origin of DAF grants and share the identity of the DAF donor with recipient charities.

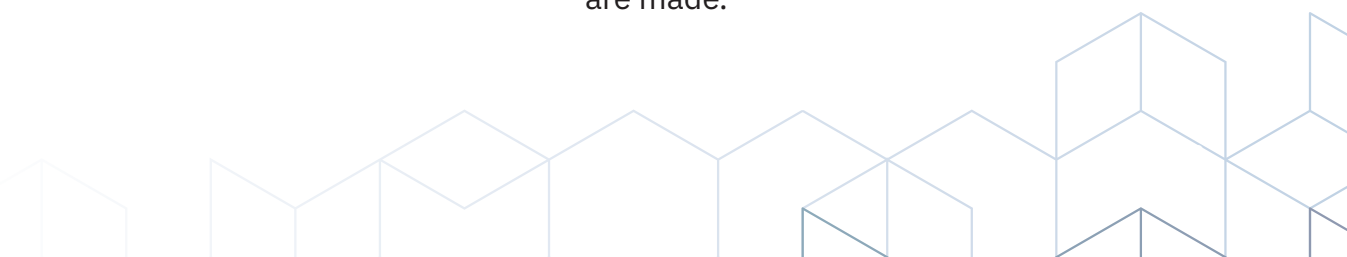
Investment Policy Statement (IPS)

- > DAF foundation boards should develop and formally approve an IPS.
- > The IPS should be reviewed annually by the board.
- > A process must be in place to ensure the foundation's investments follow the IPS and any external investment managers adhere strictly to it.

Disclosure

When a DAF is established, the foundation should provide clear written disclosure, including:

- > A detailed schedule of fees and how they're calculated and charged.
- > Instructions for recommending grants.
- > Reinforcement of the fact that it is an irrevocable gift and the foundation has the sole authority to determine whether grants are made.



- > Clarification of the difference between a DAF advisor and a financial professional who may be helping set up the fund and managing fund assets going forward.
- > Succession and transition planning details.
- > The process for termination of the DAF and disbursement of assets to another qualified donee, charity or DAF foundation.

Estate Planning

- > A DAF can simplify estate planning by allowing an individual to change which charities will receive grants from their estate without the cost or administration of updating legal documents.
- > Foundations may ask donors to create a Letter of Wishes or similar document outlining their philanthropic goals and recommendations for the distribution of funds, that can be modified during the donor's life.
- > There's no requirement to notify named charities if charities are added or removed or the amounts designated for each charity are changed.
- > The Letter of Wishes should be reviewed periodically to ensure it still reflects the donor's intentions.

Admin Fees

Most foundations charge admin fees calculated on a percentage of end-of period assets held by them (monthly, quarterly, annually). Admin fees help pay for the foundation's services, including:

- > Day-to-day operations (staff, office, service providers)
- > Issuing tax receipts
- > Reviewing charities before grants are approved (due diligence)



- > Costs related to processing grants
- > Sending grant confirmations and regular DAF reports
- > Hosting educational events and sending updates to DAF advisors
- > Creating promotional and required materials
- > Regulatory filings

WHAT NEXT?

There are some possible developments in the structure of DAFs.

- > Donors might ask DAF foundations to offer more advice on giving, including help in identifying charities to support.
- > If more DAFs start using impact investing, the way they invest money will become more important. Granting and investing could work more closely together, which might ease worries about charitable dollars “sitting idle” in DAFs.
- > Foundations might look for ways to help DAF donors team up with others who share their goals to support bigger projects than they could handle alone.



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NICOLA ELKINS

Benefaction Foundation , Co-chair of the DAF working group

MALCOLM BURROWS

Aqueduct Foundation, Co-chair of the DAF working group

KEITH SJÖGREN

Independent Consultant, who served as the lead author of *Empowering Philanthropy: An Overview of Donor-advised funds*.

LEAD WRITERS OF THE SET OF FOUR RESOURCES:

ANEIL GOKHALE

Toronto Foundation

CHRISTINE KANG

Canadian Mental Health Association

CATHERINE MUDIE

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For a full list of the DAF working group members, please see [Empowering Philanthropy: An Overview of Donor-advised funds](#)