

Guidance Statement on Verifier Independence

1. Do you agree with the principles established in the Guidance Statement?

Yes, however, I feel that the prohibition on consultants providing other performance related services might be too prescriptive. For example, a dispensation might be made if the area providing the other services is separate and independent, both structurally and financially, from the verification service. I also feel it's important that the CFA Institute actively seeks the opinion of verifiers who are currently offering such other services (eg HSBC and WM in the UK), and gives them the opportunity to suggest ways of ensuring independence in these circumstances, before applying such a prohibition. In the spirit of self-regulation, which is the basis of GIPS, verifiers should be given the chance to achieve this too.

2. Are there other elements involved in verifier independence that are not included?

Yes. I am concerned about the possible implications of outsourced performance and attribution services on verifier independence. Where services are outsourced, there is a concentration of effort, resource, methodologies and systems in one area, where, with in-house services, this would be disseminated among several investment managers, choosing many different verifiers. Whilst this makes the verifier's task easier, as once he/she knows the methodology and process for one investment manager using the outsourced service, he/she knows them for all, there is also a real danger of conflict of interest if the outsourcer has any part in the decision making process regarding which verifier to appoint. It will be in the outsourcer's interests to appoint a verifier he/she already knows as this will make the process easier, however this also results in reduced diversification and competition and the potential for some very "cosy" relationships being established. There should therefore, perhaps, be a prohibition on outsource companies being involved in the verifier appointment decision.

3. Do you agree with the proposed effective date?

Yes.

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