



February 15, 2005

CFA Institute
CFA Centre for Financial Market Integrity
Reference: Guidance Statement on Verifier Independence
PO Box 3668
Charlottesville, VA 22903

Dear CFA Institute:

Thank you for the opportunity to comment on the proposed guidance for verifier independence.

This is an important document, as it addresses an area that has a fair amount of controversy and confusion.

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

Yes

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

I don't believe so.

3. Do you agree with the proposed Effective Date?

I think it should be made effective immediately.

Other comments:

The guidance offers what appears to be conflicting information. Section 3 (page 5) addresses areas for “other performance-related services.” It gives examples where “Certain performance-related services *might* create an independence conflict.” (Emphasis added). On page 7 we find “Preparing compliant presentations.”

And then, the seventh question on page 7 allows the verifier to produce “the compliant presentation,” as long as it “Simply [involves] performing word processing and duplication functions.”

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In my opinion, the creation of such documents is clearly a conflict. On page 14 of GIPS, in paragraph “G” we read that “Verifiers must review a sample of composite presentations to ensure that the presentations include the information and disclosures required by GIPS.” If the verifier prepared these documents, then they are checking their own work! And this isn’t a conflict?

One of our client’s verifiers prepared their presentation – and got it wrong! They did this for their compliance with the AIMR-PPS which requires the fee schedule. The verifier-prepared disclosure didn’t include the fee schedule but a reference to the ADV Part II, which isn’t adequate! The verifier told me that they didn’t expect the client to use the document they prepared for their actual presentation. Well, if this was the case, then why didn’t they find any client-prepared disclosures? (They didn’t!).

Why would a firm hire a verifier to perform word processing? They wouldn’t. In these cases, the verifier is doing the client’s job, which is wrong.

The use of the word “might” in section 3 is not strong enough. The examples cited there are ones that would create a conflict, and the preparation of disclosure materials is such an example. I’m sure that the firm can hire word processors for a lot less money than the verification firm charges.

Verifiers can’t consult, help prepare materials, and then turn around and check their own work. This is wrong. This is going on but shouldn’t. This document needs to go further to prohibit such action, not condone it.

Sincerely,

David Spaulding
President