

Global Investment Performance Standards (GIPS®) Guidance Statement on Verifier Independence

Adopting Release

The Exposure Draft of the Global Investment Performance Standards (GIPS®) Guidance Statement on Verifier Independence (Exposure Draft) was available for public comment from 28 July 2017 through 26 October 2017. We delayed finalizing and issuing this Guidance Statement until the 2020 edition of the GIPS standards was released because the 2020 edition of the GIPS standards could, and did, affect the final Guidance Statement. We received comments from 18 groups and individuals, 16 of which gave permission to have their [comment letters](#) posted. Every comment was evaluated and considered, resulting in a recommendation for any needed changes to the guidance statement. The proposed changes were then reviewed with, and approved by, the GIPS Standards Verification Subcommittee and the GIPS Standards Technical Committee. This Adopting Release includes key topics and describes our rationale for the changes we made to the GIPS Standards Guidance Statement on Verifier Independence.

1. New structure in the 2020 edition of the GIPS standards.

The 2010 edition of the GIPS standards focused solely on firms, although both firms and asset owners have always been able to comply with the GIPS standards. In the 2020 edition of the GIPS standards, we created provisions specific to asset owners. (See the GIPS Standards for Asset Owners.) We also combined verification and performance examination guidance into a separate document for verifiers. (See the GIPS Standards for Verifiers.) We refer to the GIPS standards for Firms, GIPS standards for Asset Owners, and GIPS standards for Verifiers as chapters.

The Guidance Statement was edited to reflect the new structure of the GIPS standards, with the three separate chapters. Also, to acknowledge asset owners, we took the same approach with this Guidance Statement as we did with the GIPS Standards for Verifiers. The Guidance Statement is written from the perspective of a verifier doing a verification for a firm. We added language to clarify that if an asset owner chooses to be verified or have a performance examination, the asset owner and the verification firm must apply this Guidance Statement, and must interpret references to firms and verification clients as also referring to asset owners.

2. Revised verification report language in the 2020 edition of the GIPS standards.

In the Exposure Draft, we described verification as a process by which a verifier assesses whether a firm has complied with all the composite construction requirements of the Global Investment Performance Standards (GIPS®) on a firm-wide basis, and whether the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. This language is included in the verification report, as well as in the compliance statement included in GIPS Reports. In the 2020 edition of the GIPS standards, we changed this language, to more closely align the verification report and the compliance statement with the testing procedures that a verifier is required to perform, as described in the GIPS Standards for Verifiers. This language was revised to state: "A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. We revised the introduction to reflect the change in the language used in the verification reports and compliance statements.

3. Provision 1.A.39 in the 2020 edition of the GIPS Standards for Firms.

In the Exposure Draft, we stated that both the verifier and the firm must assess independence prior to the start of the engagement as evidenced by the engagement letter. We also stated that the assessment must be affirmed by both the verifier and the firm at the conclusion of the verification engagement, through the verification report issued by the verifier and the management representation letter from the firm.

In the 2020 edition of the GIPS standards for Firms we included Provision 1.A.39, which states that if a firm chooses to be verified, it must gain an understanding of the verifier's policies for maintaining independence and must consider the verifier's assessment of independence. We added a comparable Provision 21.A.28 for assets owners in the GIPS Standards for Asset Owners.

We included this provision because we agreed it is impossible for a firm to be responsible for the verifier's independence when the firm does not have access to information about the individuals at the verification firm. Provision 1.A.39 makes it clear that firms have an ongoing obligation to assess the verifier's independence. We therefore eliminated the language requiring the firm affirm the verifier's independence at the completion of the engagement, and also modified the Guidance Statement to reflect the requirements specified in Provision 1.A.39.

4. All services provided by a verification firm, including those provided by affiliates, must be considered.

The firm and the verifier must determine whether any independence issues exist that would cause the verifier to not be independent. When determining if an independence issue exists, we clarified that other services provided by an affiliate of the verifier may create an independence issue, and these services provided by the affiliate must be considered as being performed by the verifier. An affiliate is any undertaking that is connected to another by means of common ownership, control, or management.

5. Additional examples of other relationships that could create an independence issue.

The Exposure Draft stated that other issues that are not directly related to verification services or GIPS compliance may affect a verifier's independence, and included examples of these issues. We asked whether other relationships the verifier may have should be reviewed for potential independence issues. We concluded that there were other issues that could affect independence and we included the following examples:

- Employment at the verification client of immediate family members of members of the verification team who are able to significantly influence the verification or matters relating to the verification.
- Providing and receiving non-trivial gifts and non-trivial entertainment between the verifier and the verification client.
- The verification client receiving discounts on other products resulting from a relationship between the verifier and product provider.
- The verifier receiving a referral fee or non-trivial gifts and non-trivial entertainment for recommending software to a verification client.
- Personal investments by members of the verification team and their immediate family members in the verification client and the verification client's investment products.

6. Effective Date

Given the delay in issuing this Guidance Statement, we needed to change the effective date. The Guidance Statement must be applied to all verification and performance examination engagements that have a contract date on or after 30 June 2020. The contract date is typically evidenced by the date of the engagement letter.

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