PROPOSED UPDATED GIPS GUIDANCE STATEMENT ON VERIFIER INDEPENDENCE

Ken Robinson, CFA, CIPM, CPA, PFS
Director, Investment Performance Standards

Damian Regan, Chairperson, GIPS Verification Subcommittee
Director, PWC, Risk Assurance

31 July 2017
Agenda

• Verification
• Guidance Statement on Verifier Independence overview
• Public comment and consideration process
• Resources
• Q&A
How to ask a question

You may ask your questions by doing the following:

**Type your question in the Q&A box at the bottom of your screen:** We will try to answer your question during the Q&A sessions. If we can’t get to your question during the Q&A sessions, or if you have any follow up questions after the webinar, please submit your question to the GIPS Helpdesk at gips@cfainstitute.org and we will respond to you via email later.

You may download a copy of this presentation at any time during this webinar.
Verification

• The GIPS standards recommend that firms be verified.
• The GIPS Executive Committee encourages firms to undergo verification and believes it represents best practice.
What is Verification?

• It’s the review of performance measurement policies and procedures by an independent third party, testing whether
  – The firm has complied with all the composite construction requirements on a firm-wide basis
  – The firm’s policies and procedures are designed to calculate and present performance in compliance with the GIPS standards
• Applies to the entire “firm”, not specific composites (does not ensure the accuracy of any composite presentation)
Compliance Statement for a Verified Firm

“[Insert name of firm] claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. [Insert name of firm] has been independently verified for the periods [insert dates]. The verification report(s) is/are available upon request.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm’s policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.”

Verifier Qualification Requirements

- Independent from investment management firm
- Knowledgeable of the GIPS standards
- Appropriate ability/experience and expertise regarding investment management practices, including performance and business processes.
- Knowledgeable of applicable laws/regulations regarding calculation and presentation of performance
- Verifiers must follow currently accepted standards of practice within their industry (if applicable)
What is an Independent Third Party Verifier?

• Performs its service in an unbiased manner
• Must not perform any management function, decision-making role related to the GIPS standards, or testing of their own work
• Must be cognizant of actual and perceived independence issues (If prospective client relied on the verification, could perception of the verification’s value be changed if the issue was known?)
• Disclosure alone does not resolve an independence issue
Management Function Examples

- Assigning portfolios to composites
- Determining firm definition
- Determining discretion definition and/or status
- Creating composite criteria
- Establishing or modifying policies and procedures
- Calculating portfolio- and composite-level returns
- Preparing compliant presentations
Examples of Services Unlikely to Create an Independence Issue

• Identifying issues

• Providing:
  1. advice (must not include making decisions on issues)
  2. education about the GIPS standards & investment performance
  3. generic examples of compliant presentations
  4. examples of policies and procedures language
  5. GIPS compliance checklists
  6. formulas and calculation example templates when firm assumes full responsibility
Additional Guiding Principles

• The verifier must create and document its own policies and procedures that address independence at both the verification firm and employee level.
  – New requirement: At a minimum, the verifier must provide to the firm, upon request, a summary of its independence policies.

• Verifier and the firm must:
  – conclude verifier is independent prior to starting the engagement.
  – discuss and document how all potential independence issues arising during or after the engagement were resolved.
  – Affirm independence assessment at conclusion of engagement through issuance of representation letter and verification report
Additional Guiding Principles

• The verifier and the firm must consider their entire relationship when analyzing potential independence issues.
• The verifier must adhere to any independence guidance for its profession, if applicable.
• All independence issues must be adequately resolved prior to issuing a verification report.
• If cannot be adequately resolved, verification must not be performed.
• If verification report issued by verifier who was/is not independent, firm must cease making verification claim for period which verifier wasn’t independent and treat as a material error. See Guidance Statement on Error Correction for further information.
Representation Letter & Verification Report Requirement

**Representation letter**
Must include representation that the firm, based on its policies & procedures, concludes the verifier is independent from the firm.

**Verification report**
Must include a statement to the effect that the verifier is independent from the firm. Can be accomplished by including the word “independent” in the report title (e.g., using the title “Independent Verification Report”).
Consultation Questions

Question 1:
Are there other services that, if performed by the verifier, create an independence issue?
Consultation Questions

Question 2:

This Guidance Statement highlights the relationship between the verifier and the firm. However, the verifier may have other business relationships, including fee arrangements, with other businesses, such as performance system providers or insurance companies. Should we require that these types of relationships be reviewed for independence issues?
Proposed Effective Date:

- Verifiers must conduct their verification and performance examination engagements in accordance with this guidance for engagements contracted on or after 1 July 2018.
- Contract date is typically evidenced by date the engagement letter is signed by the verifier and the firm.
- Verifiers will be encouraged, but not required, to apply this guidance prior to the effective date.
- Guidance Statement was originally effective 1 January 2006.
- Prior version of this Guidance Statement is available on the GIPS standards website (www.gipsstandards.org).
Public Comment and Consideration Process

Next Steps:

• Comments submitted through 26 October 2017
• GIPS Verification Subcommittee to review all responses
• Document updated as needed
• GIPS Technical Committee Review
• Final review by GIPS Executive Committee
Selecting a Verifier

• “Suggested Questions to Ask Verification Firms” document available
• CFA Institute does not conduct verifications
Additional Questions?
Resources

• The gipsstandards.org website:
  – Current edition of the GIPS Standards & GIPS Handbook
  – Complete list of Guidance Statements
  – Q&A database
  – White papers, educational materials and webcasts
• The GIPS Handbook
• Helpdesk (gips@cfainstitute.org)
• Firm notification requirement (gipscompliance@cfainstitute.org)
• GIPS newsletter
• Twitter: @GIPS
• Certificate in Investment Performance Measurement (CIPM): cfainstitute.org/cipm
Upcoming Events

17 August 2017
Final Asset Owner Guidance Statement webinar

29 August 2017
Proposed Guidance Statement on Overlay Strategies webinar

13 September 2017
GIPS Interactive Workshop – San Diego, California, US
Fundamentals of Performance Measurement & Attribution Workshop - San Diego, California, US

14-15 September 2017
GIPS Annual Conference – San Diego, California, US
Note: Register for the 21st Annual GIPS Standards Conference before 18 August and save US$200