The BT Pension Scheme welcomes the opportunity to comment on the draft revised Guidance Statement on Verification.

By way of background, BTPS is the largest pension fund in the UK, investing £36 billion globally through some 20 investment managers, a number of which claim GIPS compliance. We actively seek to invest according to best practice standards, and fully recognise the importance of the CFA Institute’s Global Investment Performance Standards as the leading global best practice in this area. As well as following best practice, we also seek over time to enhance it and hence our interest in responding to the current consultation.

Our first comment is the fundamental one which we believe needs to be addressed at this time: we think that verification should be a requirement before any firm can claim GIPS compliance. In the absence of this, the GIPS brand and the standards themselves risk being brought into disrepute as compliance can be claimed without there being any substance behind that claim. It means that the GIPS standards are of less value to asset owners that appoint investment managers. We do not regard verification as an arduous requirement – after all, it is not seeking to verify the accuracy of reported performance numbers, only the compliance of the process – and therefore do not believe that it would be excessive for verification to be made essential for any firm claiming compliance.

We support the bulk of the substance of the Guidance Statement, and have two limited recommendations in relation to the exposure draft:

1. **Standards in relation to quality of other verifiers.**
   We believe that there should be an expectation that principal verifiers will mount some level of quality assessment of any other verifier before accepting their work. While we believe that reputable verifiers would do this in any case, we believe that setting it as an explicit expectation would be valuable. We would note that using the standard that the other verifier be “qualified and reputable” and also “independent” would make the expectation in respect of other verifiers consistent with the expectation of third parties providing audit and/or internal control work in this same paragraph. We believe that these are also the appropriate expectations of other verifiers.

2. **Negative assurance with regard to accuracy of performance presentation.**
   We fully understand the intent that there is a clear demarcation between verification and performance examination, and we do not wish to see the clarity of this difference blurred by any expectation that verifiers need to mount detailed studies of the performance disclosures resulting from the procedures on which they are providing assurance. Nevertheless, we believe that verifiers should be expected to take account of any occasions where in the normal course of their verification work they become aware that performance presentations are not in fact in compliance with GIPS standards. We would expect that if they do become aware of any such failures they should refuse to
grant verification status without changes or further appropriate reassurances – and if this is not the case we doubt the overall value of the verification process. We believe that in essence this amounts to a negative assurance standard, and that therefore a third element needs to be added to the standard Verification Report, to the effect that “The verifier has seen no evidence in the course of its process verification work that would indicate that the results of the process have resulted in presentations not in compliance with the GIPS standards.”

In addition to our comments on the draft Guidance Statement on Verification, we take this opportunity to comment on the GIPS Interpretation questions and answers in relation to verification.

We would note that as discussed above we believe that the answer to the first question needs to change to confirm that verification is a requirement before a firm can claim compliance.

Beyond this, we believe that two of the answers need some significant redrafting.

We believe that the answer to the question “Investment Firm XYZ contracted with a verification firm to have its claim of compliance verified. After performing their work, the verifiers concluded that they could not issue a verification report to Firm XYZ, as they do not believe that Firm XYZ is in compliance with the GIPS standards firmwide. The verifiers issued a statement to Firm XYZ confirming why they would not issue a verification report. What does Firm XYZ need to do?” can only be that the firm cannot claim compliance, or can only do so alongside a disclosure that a verification report was refused and none other has been sought. Clearly, if our recommendation that verification be required for any claim of compliance, this issue goes away entirely.

In a similar way we believe that the approach should be more clearcut in relation to the question “Our investment management firm has used the same verification firm for the last five years. We recently discovered that an employee of the verification firm is related to a portfolio manager our firm hired this year. Will our firm be able to continue to use the verification firm for our annual verification next year?” The answer refers to a situation where the relevant employee heads the verification project and is the spouse of the new investment manager, but only suggests that independence issues must then be evaluated. We believe that it should be made clear that such circumstances would clearly mean that the firm is no longer independent for verification purposes so that the need for independence assessments bites in circumstances which fall short of this extreme case. The way the answer invites discussion risks undermining the substance of the independence requirement in an unfortunate way.