



**CFA Institute**<sup>®</sup>  
Global Investment  
Performance Standards

**ASSISTANCE TO ASSET OWNERS  
CONSIDERING COMPLIANCE  
WITH THE GIPS<sup>®</sup> STANDARDS**



**CFA Institute**

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# TABLE OF CONTENTS

Introduction	1
What Are the GIPS Standards?	1
Background of the GIPS Standards	1
Asset Owners That Can Claim Compliance with the GIPS Standards	2
Requiring External Managers to Claim Compliance with the GIPS Standards	2
Why an Asset Owner Should Claim Compliance with the GIPS Standards	3
Specific Guidance for Asset Owners	3
Laying the Groundwork	4
Gaining GIPS Standards Expertise	4
Management Support for Achieving Compliance with the GIPS Standards	5
Determining the Scope of the Project (including the Availability of Required Data)	5
Identifying a GIPS Standards Champion and Assembling a GIPS Standards Implementation Team	6
Asset Owner–Wide Education	7
Assessing the Need for/Desirability of Third-Party Help	7
Next Steps in the Journey to Compliance with the GIPS Standards	8
Increasing In-House Knowledge of the GIPS Standards	8
Defining the Asset Owner	8
Determining the Number of Total Funds in Scope	9
The Availability of the Data Required by the GIPS Standards	9
Determining the Time Period for Initial Compliance	10
Determining How Total Funds will be Presented to the Asset Owner’s Oversight Body	10
Deciding Whether to Create Additional Composites	11
Creating the Road Map: The GIPS Standards Policies and Procedures Manual and GIPS Asset Owner Reports	12
GIPS Standards Policies and Procedures Manual	12
GIPS Asset Owner Reports	14
The Last Step	15
Notifying CFA Institute of the Asset Owner’s Claim of Compliance	15

## Assistance to Asset Owners Considering Compliance with the GIPS® Standards

Staying the Course: Maintaining Compliance with the GIPS Standards	15
Checks and Controls	15
Staying Current on Laws and Regulations and the GIPS Standards	16
Error Correction	16
Verification	17
Conclusion	18

# ASSISTANCE TO ASSET OWNERS CONSIDERING COMPLIANCE WITH THE GIPS® STANDARDS

## Introduction

### What Are the GIPS Standards?

The Global Investment Performance Standards (GIPS®) are voluntary, ethical principles for the reporting of investment performance results. The GIPS standards:

- come from the investment industry itself—not from governments or regulators,
- represent the efforts of an alliance of experts from within the global investment industry,
- are applicable to all asset owners and asset managers that manage assets on a discretionary basis, regardless of structure, client type, asset class, or investment strategy,
- are based on the principles of fair representation and full disclosure, and
- are owned and administered by CFA Institute. (CFA Institute is a global association of investment professionals with more than 178,000 members in 161 countries and territories.)

### Background of the GIPS Standards

The foundation for the GIPS standards was first laid in 1987 with the creation of the AIMR Performance Presentation Standards (AIMR-PPS™), which were used primarily in the United States and Canada. (CFA Institute was formerly named the Association for Investment Management and Research, or AIMR.)

The first version of the GIPS standards was adopted in 1999, although country-specific versions of the GIPS standards were allowed. On 1 January 2006, all of the country versions of the GIPS standards were eliminated, leaving a single version of the GIPS standards. The GIPS standards were then updated in 2010.

In June 2014, the Guidance Statement on the Application of the GIPS Standards to Asset Owners was issued to assist asset owners in claiming compliance with the GIPS standards.

In June 2019, CFA Institute issued the 2020 edition of the GIPS standards, which includes separate chapters tailored for firms, asset owners, and verifiers. The 2020 GIPS Standards for Asset Owners includes required and recommended provisions applicable for asset owners. A separate GIPS Standards Handbook for Asset Owners includes an explanation of each provision included in the GIPS Standards for Asset Owners.

## Asset Owners That Can Claim Compliance with the GIPS Standards

Only asset owners that manage actual, discretionary assets may claim compliance with the GIPS standards. To have discretion over assets, an asset owner must either

- manage assets directly, or
- have the ability to hire and fire external investment managers.

Some asset owners manage the assets themselves. Many asset owners use third-party managers to manage some or all of their assets. If an asset owner chooses to outsource some or all of its investment functions and/or operations, it can still claim compliance with the GIPS standards as long as it retains discretion over the assets it manages.

Asset owners include, but are not limited to, pension funds, endowments, foundations, family offices, provident funds, insurers and reinsurers, sovereign wealth funds, and fiduciaries.

## Requiring External Managers to Claim Compliance with the GIPS Standards

An asset owner is not required to hire only external managers that claim compliance in order for the asset owner itself to claim compliance. Although hiring only compliant external managers may help an asset owner attain and maintain compliance, doing so provides other benefits as well:

- An asset owner can compare the performance of external managers on an apples-to-apples basis.
- Returns are presented with information that will help the asset owner understand and interpret the external manager's track record.
- The GIPS standards prohibit the external manager from practices that result in the reporting of deceptive performance data, such as:
  - ◆ cherry-picking only the top-performing portfolios when creating a track record,
  - ◆ selectively choosing time periods to enhance reported performance,
  - ◆ excluding from performance poorly performing portfolios that have terminated the external manager (i.e., survivorship bias),
  - ◆ valuing assets based on book value or cost that does not represent fair value, and
  - ◆ using simulated returns that are not based on actual assets when actual performance exists.
- The external manager has shown a commitment to industry best practices and a higher ethical standard—that is, a commitment to the calculation and presentation of investment performance methods that are consistent, transparent, and comparable.

## Why an Asset Owner Should Claim Compliance with the GIPS Standards

Claiming compliance with the GIPS standards offers important benefits to asset owners:

- It shows legislative bodies, oversight bodies, and the general public that the asset owner has a commitment to industry best practices and meeting a higher ethical standard.
- It demonstrates a commitment to the principles of fair representation and full disclosure.
- The asset owner's investment performance policies and procedures are likely to become more robust, resulting in operational efficiency and enhanced internal controls.
- It shows a commitment to the same performance standards that the asset owner typically requires of any external investment managers that the asset owner hires.
- The asset owner's and oversight body's investment decision making will be based on the fair representation and full disclosure of the investment results of assets being managed on behalf of the organization.
- Management of the asset owner can be held to proper account for investment decisions.
- Asset owner participants and beneficiaries can have more confidence in performance reports from the asset owner.

Given the benefits to asset owners of complying with the GIPS standards, it is not surprising that the number of asset owners claiming compliance continues to increase.

## Specific Guidance for Asset Owners

With the issuance of the 2020 edition of the GIPS standards, requirements, recommendations, and related interpretive guidance were created specifically for asset owners. Although the overarching ethical principles of the GIPS standards are the same for both asset owners and asset managers, the requirements and recommendations of the GIPS standards have now been tailored specifically to meet the unique circumstances of asset owners.

An asset owner would follow the specific requirements for asset owners (i.e., the GIPS Standards for Asset Owners) if the asset owner:

- manages investments, either directly or through the use of external managers, only on behalf of participants, beneficiaries, or the organization itself, or
- manages assets of related asset owners to gain efficiencies and cost savings.

An example of an asset owner managing assets of related asset owners is a state employee pension plan that manages the pension plans of local municipalities within that state.

An asset owner would follow the specific requirements for firms (i.e., the GIPS Standards for Firms) when the asset owner competes for business by marketing to prospective clients, as is done by traditional asset managers.

If an asset owner has decided to achieve compliance with the GIPS standards, how should it plan and carry out this compliance journey? We have prepared this document to provide a resource and answer questions for asset owners working toward a claim of compliance.

## Laying the Groundwork

### Gaining GIPS Standards Expertise

Asset owners working toward claiming compliance with the GIPS standards need to understand the expectations associated with each requirement and recommendation.

As a first step in achieving compliance, therefore, it is critical that those who are championing compliance become knowledgeable about the GIPS standards.

A good way to gain this knowledge is to read through the GIPS Standards for Asset Owners and the related GIPS® Standards Handbook for Asset Owners (hereafter, the Handbook). Each section of the GIPS standards contains provisions, which are either requirements or recommendations. Requirements must be followed. Recommendations do not need to be followed but represent best practices that asset owners should adopt.

The GIPS Standards for Asset Owners include the following sections, glossary, and appendixes:

21. Fundamentals of Compliance

The guiding principles of the GIPS standards, as well as some of the most basic requirements and recommendations of the GIPS standards

22. Input Data and Calculation Methodology

Valuation of assets, general accounting principles, and calculation methodology

23. Total Fund and Composite Maintenance

Total funds and composites that must be created and maintained, and those that are optional

24. Total Fund and Composite Time-Weighted Return Report

Presentation and reporting of items in a GIPS Asset Owner Report that includes time-weighted returns, as well as the disclosures to be included in the report

25. Additional Composite Money-Weighted Return Report

Presentation and reporting of items in a GIPS Asset Owner Report that includes money-weighted returns, as well as the disclosures to be included in the report

26. GIPS Advertising Guidelines

Options when mentioning the asset owner's claim of compliance in an advertisement



## Glossary

Contains the definitions of defined terms (terms that appear in small capital letters throughout the GIPS Standards for Asset Owners)

Appendix A: Sample Total Fund GIPS Asset Owner Reports

Appendix B: Sample Composite GIPS Asset Owner Reports

Appendix C: Sample GIPS Advertisement

Appendix D: Sample List of Total Fund and Composite Descriptions

Being familiar with the structure of the GIPS Standards for Asset Owners will make it easy to determine which section contains information about a specific requirement, recommendation, or topic.

The Handbook includes a discussion of each provision to help asset owners interpret and implement each requirement and recommendation. The Handbook is authoritative guidance.

## Management Support for Achieving Compliance with the GIPS Standards

Support from management is needed in order to receive:

- resources (time and money), and
- support and cooperation from other areas of the asset owner.

To gain that support, it is important to share with management:

- the benefits of compliance, and
- the scope of the project—an approximate idea of the length of time and the amount of resources needed to achieve compliance.

## Determining the Scope of the Project (including the Availability of Required Data)

Those who are seeking support for achieving compliance with the GIPS standards should be able to convey to management at least an approximate timeframe and an estimate of the resources needed to achieve compliance. The approximate scope of the project can be obtained by:

- reviewing the key requirements of the GIPS standards relative to the capabilities of the asset owner,
- speaking with colleagues at other asset owners that claim compliance with the GIPS standards or are in the process of achieving compliance, and
- seeking assistance from a third-party that specializes in assisting firms and asset owners in achieving compliance with the GIPS standards.

A key issue in determining the scope of the project is whether or not the asset owner has—or can easily obtain—the data necessary for compliance with the GIPS standards. The following questions are important to ask:

- Are the accounting and performance measurement systems used by the asset owner capable of producing the performance and performance-related data required by the GIPS standards? If not, is the fix quick and easy, or is it likely to be more complicated and expensive?
- Can reliance be placed on the performance and performance-related data received from external managers?
- If the asset owner relies on a third-party service provider for performance-related data, does this information meet the calculation requirements of the GIPS standards?

A full analysis of required information relative to currently available data can come at a later stage in the process. It is important, however, to have at least an approximate idea of how much work will be needed to produce the data necessary for GIPS compliance.

Management is likely to be reassured that those seeking buy-in for achieving compliance with the GIPS standards have at least an approximate idea of the scope of the project.

## **Identifying a GIPS Standards Champion and Assembling a GIPS Standards Implementation Team**

After buy-in from management is obtained, the next step is to identify a GIPS standards champion who will drive the compliance process. This individual will be in charge and accountable.

With a GIPS standards champion identified, a GIPS standards implementation team can be created. It is helpful to have a team with representatives from the areas of the asset owner that will be involved in the process of achieving and maintaining compliance. Depending on the structure and size of the asset owner, this team may include representatives from the following areas:

- legal and compliance,
- systems and operations (including performance measurement),
- accounting, and
- investment management—including
  - ◆ internal management of assets and
  - ◆ selection and monitoring of external managers.

The GIPS standards implementation team should meet regularly and be able to meet on an ad hoc basis to address any time-sensitive issues. Throughout the process, there must be clarity about team members' roles and where the GIPS standards expertise will reside.

## Asset Owner-Wide Education

Even with strong support from management, it is important to obtain buy-in from all areas of the asset owner that will be involved in the process of achieving compliance. To create real buy-in, others within the asset owner's organization need to understand:

- the benefits of complying with the GIPS standards,
- what is involved in the process of achieving compliance, and
- how it will affect their own area, their job responsibilities, their work flow, and their interaction with other areas.

It is helpful for the implementation team to meet with the teams that will be affected by the move to claiming compliance, in order to provide information and materials specifically tailored to each team.

## Assessing the Need for/Desirability of Third-Party Help

GIPS standards consultants and GIPS standards verifiers can help asset owners with the process of becoming compliant.

- The benefits of using a good GIPS standards consultant or verifier include obtaining:
  - ◆ valuable input from someone with a thorough knowledge of the GIPS standards,
  - ◆ a third-party perspective on the asset owner's strategy for achieving compliance and suggestions on how the strategy might be improved,
  - ◆ access to knowledge regarding how other asset owners have achieved and maintain compliance, and
  - ◆ the potential to achieve compliance more quickly and efficiently.
- The drawbacks to using a consultant or verifier include:
  - ◆ the financial cost (which may be offset to some degree if third-party help can assist the asset owner in achieving compliance quickly and efficiently), and
  - ◆ too heavy a reliance on the third party so that sufficient in-house expertise with the GIPS standards is not developed.

If a verifier assists an asset owner in achieving GIPS compliance and will be used to conduct a verification as well, the asset owner and verifier must take care to ensure that the verifier does not play a role that would affect its independence as verifier.

The GIPS standards website ([www.gipsstandards.org](http://www.gipsstandards.org)) includes a list of service providers. You can find this list under Resources.

At this point in the GIPS compliance process, several important steps have been achieved:

- identifying the approximate scope of the project,
- obtaining management buy-in,
- selecting a GIPS standards champion and the other members of the implementation team,
- gaining support from all areas of the asset owner that will be affected by the process of achieving and maintaining compliance with the GIPS standards, as well as providing education regarding this process to these areas, and
- deciding whether or not to use third-party help to achieve compliance.

## Next Steps in the Journey to Compliance with the GIPS Standards

With the groundwork laid for achieving compliance with the GIPS standards, the next steps can begin.

### Increasing In-House Knowledge of the GIPS Standards

Familiarity with the GIPS standards was important before seeking management support for the compliance process. Once such support is obtained, those responsible for achieving compliance will need to continue their education in the GIPS standards.

In addition to the Handbook, other sources of information about the GIPS standards include:

- the GIPS standards website, which has tools and resources tailored for asset owners,
- the GIPS Standards Newsletter,<sup>1</sup> which contains the latest news, interpretations, and events related to the GIPS standards, including changes to the GIPS standards and the issuance of new guidance,
- colleagues at other asset owners who are going through or have gone through the process of obtaining compliance with the GIPS standards, and
- conferences, workshops, and webinars that discuss the GIPS standards.

### Defining the Asset Owner

The definition of the asset owner, a critical and early step in achieving compliance, appears in Section 21 of the Handbook. This definition is the foundation for asset owner–wide compliance, and it creates defined boundaries for determining total asset owner assets.

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<sup>1</sup>To subscribe to the GIPS Standards Newsletter, visit the GIPS standards website ([www.gipsstandards.org](http://www.gipsstandards.org)) and find the GIPS Standards Newsletter webpage under Resources.

An asset owner is defined as an entity that manages investments, directly and/or through the use of external managers, on behalf of participants, beneficiaries, or the organization itself, and does not compete for business.

- For a public pension fund, the asset owner is generally defined by legislation.
- In the case of foundations, endowments, or family offices, the asset owner is the entity established by the governing body to manage the pool of assets.

Asset owners claiming compliance must apply the GIPS Standards for Asset Owners to the entire entity defined as the asset owner.

In some situations, an organization may act as both an asset owner, whereby investment authority and ownership are vested with the organization itself, as well as a firm (asset manager) that competes for assets whose vesting lies with external clients. See the Handbook discussion of Provision 21.A.24 for guidance on situations in which an asset owner competes for business, including those instances in which an asset owner acts as both an asset owner and a firm that competes for business.

## **Determining the Number of Total Funds in Scope**

The definition of the asset owner delineates the universe of “all” assets that must be included in total asset owner assets. Both discretionary and non-discretionary assets managed by the asset owner are included in total asset owner assets. Total asset owner assets include assets assigned to an external manager, provided the asset owner has discretion for selecting the external manager.

A total fund is a pool of assets managed by an asset owner according to a specific investment mandate, which is typically composed of multiple asset classes. The total fund usually consists of underlying portfolios, each representing one of the strategies used to achieve the asset owner’s investment mandate.

If the asset owner manages only one pool of assets (i.e., one total fund), that total fund represents total asset owner assets.

If the asset owner manages more than one total fund, the amount of total asset owner assets equals the combined assets of all total funds managed by the asset owner.

## **The Availability of the Data Required by the GIPS Standards**

How long it will take an asset owner to achieve compliance—and how much it will cost in terms of resources—depends to a large extent on whether the data that can be produced by an asset owner’s systems or the data provided by external managers meets the requirements of the GIPS standards. Sections 22, 24, and 25 of the Handbook are particularly helpful because they address requirements for input data and calculation methodology, as well as numerical information and disclosures for time-weighted and money-weighted return reports.

Is the data produced by in-house accounting and performance measurement systems, or provided by external managers, sufficient for compliance with GIPS standards? If the answer is no, what steps must be taken to obtain all of the data required for compliance?

For in-house systems:

- Can existing in-house systems be upgraded so that required data can be produced?
- Must new systems be purchased? If so:
  - ◆ How much will the new system cost?
  - ◆ What resources are needed to install the new system?
  - ◆ How long will this installation take?

For data received from external managers:

- What steps must be taken to obtain the required information for the externally managed portfolios?
- Can existing external managers supply the required data? If not, what steps must be taken to modify the data?

If an asset owner is relying on third-party service providers for performance and performance-related data, it is the responsibility of the asset owner to ensure that the data received from a third-party service provider meets the requirements of the GIPS standards.

## **Determining the Time Period for Initial Compliance**

Once the asset owner has assessed the capabilities of its in-house systems and the data provided by external managers or third-party service providers, it is possible to determine the time period for initial compliance. This will depend on how many years of compliant performance history can be presented by the asset owner when the asset owner first claims compliance.

The asset owner must initially present at least one year of total fund performance that meets the requirements of the GIPS standards, building up to a minimum of 10 years. If a total fund has been in existence for less than one year, then performance must be presented since the inception of the total fund.

If the asset owner can initially attain compliance for more than one year and therefore can present more than one year of compliant performance, it is encouraged—but not required—to do so.

## **Determining How Total Funds will be Presented to the Asset Owner's Oversight Body**

If the asset owner has only one total fund, the asset owner must present a GIPS Asset Owner Report for that total fund to its oversight body. A GIPS Asset Owner Report is a presentation for a

total fund that contains all the information required by the GIPS standards. A GIPS Asset Owner Report may also include recommended information and supplemental information. Sample Total Fund GIPS Asset Owner Reports can be found in Appendix A of the GIPS Standards for Asset Owners.

If the asset owner has more than one total fund, with each total fund managed according to a different mandate or strategy, the asset owner must present a GIPS Asset Owner Report for each total fund to its oversight body.

If the asset owner has more than one total fund managed according to the same strategy, the asset owner may:

- prepare and present a GIPS Asset Owner Report for each total fund to its oversight body, or
- combine the total funds managed in the same strategy in a total fund composite<sup>2</sup> and present a GIPS Asset Owner Report for the total fund composite to its oversight body.

The requirements for presenting a total fund or total fund composite to those who have direct oversight responsibility for the total fund are explained in Section 21 of the Handbook.

## Deciding Whether to Create Additional Composites

An asset owner may decide to report performance beyond the required GIPS Asset Owner Report(s) for its total fund(s) and/or total fund composite(s) and create additional composites. An additional composite is a grouping of portfolios representing a particular strategy or asset class that the asset owner chooses to present in a GIPS Asset Owner Report. Examples of an additional composite created from grouping together portfolios from within one or more total funds include:

- domestic equities,
- international equities, and
- real estate.

A GIPS Asset Owner Report must be created for each additional composite that the asset owner chooses to create and present in a GIPS Asset Owner Report. The asset owner must present a GIPS Asset Owner Report for any additional composite it chooses to create to its oversight body.

It is perfectly acceptable for an asset owner to focus on its total fund(s) and the related GIPS Asset Owner Report(s) when first achieving compliance with the GIPS standards. Additional composites and the related GIPS Asset Owner Reports can be added later if the asset owner wishes to do so.

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<sup>2</sup>A composite is an aggregation of one or more portfolios or total funds that are managed according to a similar investment mandate, objective, or strategy.

## Creating the Road Map: The GIPS Standards Policies and Procedures Manual and GIPS Asset Owner Reports

### GIPS Standards Policies and Procedures Manual

The GIPS standards require documentation of the policies and procedures used in establishing and maintaining compliance with the GIPS standards. Because the GIPS standards are not static and may change over time, assets owners must establish policies and procedures to identify any changes in the GIPS standards that affect them.

Asset owners must also comply with any laws and regulations regarding the calculation and presentation of performance. Laws and regulations can change over time, so the GIPS standards also require the creation of policies and procedures to monitor and identify changes in and additions to laws and regulations regarding the calculation and presentation of performance.

This documentation, referred to as the GIPS Standards Policies and Procedures (or P&P) Manual, can be created once an asset owner:

- is familiar with the requirements and recommendations of the GIPS standards, and
- has a preliminary idea of the policies and procedures it will use to achieve and maintain compliance with the GIPS standards.

The GIPS Standards Policies and Procedures Manual serves a number of important functions. The manual:

- indicates choices in cases where approved alternatives exist,
- specifies policies/rules for situations that the GIPS standards do not explicitly cover, and
- documents procedures for consistent application of GIPS standards policies.

Before beginning to document policies and procedures, it is important to understand the difference between a “policy” and a “procedure.”

Policy: A basic principle used to guide decisions and actions

Procedure: An action required to implement a policy

Here are some important points for asset owners to keep in mind as they develop their own GIPS Standards Policies and Procedures Manual:

- Identify a group or individual at the asset owner who will be responsible for developing and maintaining the policies and procedures and for ensuring that all applicable requirements are being followed. It is likely that several areas within the asset owner (e.g., accounting, legal and compliance, and investment areas) will need to be involved.



- Policies and procedures are unique to an asset owner—there is no “one size fits all” template. Although getting help from others outside of the asset owner is allowed, the Policies and Procedures Manual must be designed for the specific asset owner.
- Include references to the provisions of the GIPS standards. Doing so:
  - ◊ helps to ensure that every applicable point in the GIPS standards provisions is covered,
  - ◊ enables third parties (e.g., regulators, verifiers, internal audit, compliance, risk management) to easily review policies and procedures relative to the GIPS standards, and
  - ◊ makes it easy for the asset owner to know where to make changes if the GIPS standards change or if the asset owner’s policies and procedures change for other reasons.
- If an asset owner relies on third-party data, there must be policies and procedures for ensuring this data meets any calculation requirements of the GIPS standards.
- A Policies and Procedures Manual cannot simply repeat the provisions. An example based on Provision 21.A.6.b:
  - ◊ Wrong: “Policies and procedures have been created to monitor and identify changes in and additions to the GIPS standards, as well as all of the Guidance Statements, interpretations, and Q&As published by CFA Institute.”
  - ◊ Correct: “In order to stay informed of any new guidance, interpretations, or changes to the GIPS standards relevant to asset owners, staff members responsible for compliance with the GIPS standards:
    - regularly attend industry conferences, including the GIPS Standards Annual Conference sponsored by CFA Institute,
    - participate in webinars and other online training programs offered by industry leaders,
    - subscribe to newsletters and email alerts from CFA Institute related to the GIPS standards, including the GIPS Standards Newsletter, and
    - review the information provided by our GIPS standards verifier and other industry service providers regarding interpretation of and news about the GIPS standards.
- Asset owners must establish policies and procedures for:
  - ◊ reviewing and ensuring that all required information is included in a GIPS Asset Owner Report and that the information is accurate,
  - ◊ ensuring that all materials that include performance adhere to applicable laws and regulations regarding the calculation and presentation of performance results, and
  - ◊ addressing errors in GIPS Asset Owner Reports. An error is defined as any component of a GIPS Asset Owner Report that is missing or inaccurate.
- Any changes in the asset owner’s GIPS Standards policies and procedures must be applied prospectively, not retrospectively.

- Both current and previous versions of an asset owner's Policies and Procedures Manual must be maintained in order to provide an accurate history of policies and procedures for the entire period for which the asset owner claims compliance.

Here are some questions to ask as policies and procedures are being formulated:

- For each requirement, and for each recommendation that the asset owner chooses to adopt, do the policies and procedures clearly explain:
  - ◆ what is being done to meet the requirement or recommendation,
  - ◆ how it is done, and
  - ◆ who is responsible for doing it?
- Does the policy or procedure conform to:
  - ◆ the GIPS standards,
  - ◆ regulatory requirements, and
  - ◆ the principles of fair representation and full disclosure?
- Is the policy or procedure easy to understand and apply consistently given the work processes and systems in place?
- Are appropriate checks and balances included in the policies and procedures?

## **GIPS Asset Owner Reports**

A GIPS Asset Owner Report must be created for each:

- total fund presented separately to the oversight body,
- total fund composite, and
- additional composite that an asset owner chooses to create and present in a GIPS Asset Owner Report.

The GIPS Asset Owner Report contains all the required information that must be presented to the oversight body. Only GIPS-compliant performance may be included in the GIPS Asset Owner Report. Other information may be included in the GIPS Asset Owner Report as well, as long as it is not false or misleading and does not contradict any of the required information. (Outside of a GIPS Asset Owner Report, asset owners may present their entire performance history, which may include both non-compliant and compliant performance.) See Section 24 of the GIPS Standards for Asset Owners for the information that must be included in a GIPS Asset Owner Report for a total fund or total fund composite.

The quantitative and qualitative information included in a GIPS Asset Owner Report is designed to help the asset owner's oversight body interpret the asset owner's performance record for the total fund, total fund composite, or additional composite being presented. See Appendix A and

Appendix B of the GIPS Standards for Asset Owners for sample GIPS Asset Owner Reports. The look and format of the GIPS Asset Owner Report are left to the discretion of the asset owner.

Always keep in mind that the asset owner must capture and maintain all data and information necessary to support all items in a GIPS Asset Owner Report.

When a GIPS Asset Owner Report is first presented to the asset owner's oversight body, the asset owner should take the time to review the items in the report with members of the oversight body so that the members understand the items presented and why the report includes those items.

## The Last Step

### Notifying CFA Institute of the Asset Owner's Claim of Compliance

When an asset owner is finally ready to claim compliance with the GIPS standards, the asset owner must notify CFA Institute of its claim of compliance by submitting the GIPS Compliance Notification Form to CFA Institute. This form must be:

- filed when the asset owner first claims compliance, and
- filed annually thereafter, between 1 January and 30 June.

## Staying the Course: Maintaining Compliance with the GIPS Standards

A well-deserved celebration should take place when an asset owner is first able to claim compliance with the GIPS standards. However, there should also be recognition that achieving compliance is only part of the journey. It is just as important to take the steps necessary to maintain compliance.

### Checks and Controls

One of the first steps in maintaining compliance is to make sure the asset owner has proof that the policies and procedures laid out in the GIPS Standards Policies and Procedures Manual are being followed. It is important to have:

- strong policies and procedures that are clearly documented,
- a clear understanding of who is responsible for each step in the compliance process,
- a checklist of activities that need to take place monthly, quarterly, or annually—with a place for a date and sign-off by the person responsible,
- appropriate checks and balances inserted at appropriate points in the process, and
- work papers supporting compliance that are filed and easily accessible.

Asset owners should consider having a quarterly meeting with those involved in GIPS compliance to review potential weak spots in the process and identify improvements.

## **Staying Current on Laws and Regulations and the GIPS Standards**

Asset owners typically have a legal and compliance department that is accustomed to keeping current with local laws and regulations. Staying current with the GIPS standards will be a new task for the asset owner. Some ways of staying current with any changes in the GIPS standards, new guidance, or Q&As include:

- subscribing to the GIPS Standards Newsletter,
- periodically checking the GIPS standards website for updates or new guidance, as well as new resources such as presentations and webinars,
- attending GIPS standards workshops, conferences, or webinars, and
- reviewing information provided by a GIPS standards verifier or consultant, and other industry service providers.

## **Error Correction**

Regardless of how vigilant an asset owner is, at some point, an error—either inaccurate or missing data or information—is likely to be discovered in a GIPS Asset Owner Report. The GIPS standards require asset owners to:

- establish and consistently implement error correction policies and procedures, and
- define materiality in these error correction policies and procedures.

Some best practices for asset owners to consider when establishing error correction policies and procedures include:

- implementing an operational process that proactively looks for errors,
- maintaining an error correction log that includes support for the asset owner's assessment and determination of materiality,
- establishing who is responsible for each step of the error correction policy, and
- involving multiple parties within the asset owner in reviewing errors.

When an error occurs, an asset owner should review its policies and procedures, including the controls in place and the checks and balances followed, to determine:

- whether existing policies and procedures were followed,
- whether procedures, including controls and checks, are sufficient, and
- what additional controls or checks may be needed to eliminate a recurrence of this error.

Every error identified is an opportunity to strengthen an asset owner's policies and procedures. In some cases, it may point to the need for less manual processing and increased automation.

See the discussion of Provision 21.A.16 in the GIPS Standards Handbook for additional information on establishing error correction policies.

## Verification

Verification is a process by which an independent verifier conducts testing of an asset owner on an asset owner-wide basis, in accordance with the required verification procedures of the GIPS standards. Verification is intended to provide an asset owner, its oversight body, and its beneficiaries additional confidence in the asset owner's claim of compliance with the GIPS standards.

Verification provides assurance on whether the asset owner's policies and procedures related to total fund and composite maintenance, as well as the calculation, presentation, and distribution of performance, have been:

- designed in compliance with the GIPS standards, and
- implemented on an asset owner-wide basis.

Verification is recommended, but not required, by the GIPS standards.

The benefits of a good verification process include:

- increased confidence, of both the asset owner and its oversight body, in the asset owner's claim of compliance,
- independent evaluation of an asset owner's internal controls by someone who knows how to find weak spots in the GIPS compliance process,
- a third-party perspective on the asset owner's compliance strategy and recommendations on how it can be improved, and
- access to knowledge of what other asset owners are doing—what works and what does not work.

The primary drawback of engaging a verifier is the cost of the verification, in terms of both the financial cost of the engagement and the resources, such as staff time, necessary to support the verification. This cost can be at least partially offset if the verifier can help an asset owner find more efficient ways to achieve and maintain GIPS compliance.

The value of a verification depends critically on the quality of the verifier hired. Asset owners should look for a verifier who has:

- strong auditing skills,
- thorough and up-to-date knowledge of the GIPS standards, and
- thorough and up-to-date knowledge of relevant laws and regulations relating to performance.

Asset owners that wish to have a higher level of testing may choose to have a performance examination, which provides assurance on the results of a specific total fund or composite. A performance examination may only be performed either concurrently with, or subsequent to the completion of, a verification.

Note that the verifier must be independent from the asset owner. Although a verifier can advise an asset owner on best practices, the verifier must not assume the role of management. To put it simply: Verifiers cannot review their own work. Please see the Guidance Statement on Verifier Independence for more information.

## Conclusion

The journey to compliance with the GIPS standards, as well as the process of maintaining compliance, often results in stronger processes and more robust internal controls. The following elements are especially helpful—and even necessary—in achieving and maintaining GIPS compliance:

- **An asset owner–wide culture of compliance**  
A culture of compliance implies that everyone within the asset owner has an understanding of the importance of compliance in all aspects of the asset owner’s operations and a willingness to do what it takes to achieve and maintain compliance.
- **Clear accountability**  
One person, or a team of people, should be charged with understanding the GIPS standards and maintaining compliance.
- **Thorough documentation**  
All policies and procedures related to the GIPS standards must be clearly documented. A checklist is helpful to show when and by whom the documented procedures have been carried out and for demonstrating to the oversight body, regulators, legal and compliance, internal auditors, and verifiers that the documented policies and procedures are being consistently applied.
- **A review process for the GIPS Asset Owner Report**  
There should be a robust review process to ensure that all of the required information is included in the GIPS Asset Owner Report and that the required information, as well as any other information included in the report, is accurate.
- **Error prevention**  
When an error is discovered, the focus should be on problems with the process and not the people. This focus creates an environment of prevention where mistakes are identified and addressed and the process is constantly improved.

- Appropriate third-party help

Asset owners must decide what type of help from outside sources, if any, is appropriate for them. For example, third-party verification can provide peace of mind, good recommendations for strengthening the compliance process, and assistance with an asset owner's interpretation of the GIPS standards.

- Ongoing education

It is important that appropriate education on the GIPS standards is provided for all those responsible for, or affected by, compliance with the GIPS standards. An asset owner must also have a process in place for keeping up with changes in the GIPS standards.

Although achieving and maintaining compliance with the GIPS standards involves effort, asset owners should find that the benefits outweigh the costs. The result of GIPS compliance is robust internal processes focused on the integrity of the performance data calculated and reported by the asset owner. That result is worth the effort.

