



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

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



**CFA Institute**

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# ASSISTANCE TO FIRMS 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 190,000 CFA® charterholders in more than 160 markets.

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

## Firms That Can Claim Compliance with the GIPS Standards

Only firms that manage actual, discretionary assets may claim compliance with the GIPS standards. Compliance must be met on a firm-wide basis and cannot be met on a composite, pooled fund, or portfolio basis. Software vendors, custodians, and other service providers do not manage actual assets and cannot claim compliance with the GIPS standards.

## Why a Firm Should Claim Compliance with the GIPS Standards

Claiming compliance with the GIPS standards offers important benefits to firms:

- Compliance may improve the chances of being hired by a prospective client or prospective investor because it signals that the firm has designed and implemented policies and procedures to fully disclose and fairly present past performance.
- Standardized GIPS Reports help ensure that firms are evaluated on their actual record and that calculation and presentation methods do not result in unfair competition.
- Compliance makes it possible for investment managers around the world to present historical returns in any market without having to restate performance using different calculation and presentation methods.
- Compliance requires firms to establish robust investment performance policies and procedures.
- Compliance demonstrates to current and prospective clients and investors and the general public a voluntary commitment to follow ethical standards.

## Laying the Groundwork

### Gaining GIPS Standards Expertise

Firms 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 Firms and the related *GIPS® Standards Handbook for Firms* (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 firms should adopt.

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

1. 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

2. Input Data and Calculation Methodology

Valuation of assets, general accounting principles, and calculation methodology

3. Composite and Pooled Fund Maintenance

Composites that must be created and maintained, and the treatment of pooled funds

4. Composite Time-Weighted Return Report

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

5. Composite Money-Weighted Return Report

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

6. Pooled Fund Time-Weighted Return Report

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

7. Pooled Fund Money-Weighted Return Report

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

8. GIPS Advertising Guidelines

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

Glossary

Contains descriptions of defined terms (terms that appear in small capital letters throughout the GIPS Standards for Firms)

Appendix A: Sample GIPS Composite Reports

Appendix B: Sample GIPS Pooled Fund Reports

Appendix C: Sample GIPS Advertisements

Appendix D: Sample Lists of Composite and Pooled Fund Descriptions

Being familiar with the structure of the GIPS Standards for Firms 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 firms 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 firm.

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 firm,
- speaking with colleagues at other firms 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 in achieving compliance with the GIPS standards.

A key issue in determining the scope of the project is whether or not the firm 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 firm 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?
- If the firm 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 firm that will be involved in the process of achieving and maintaining compliance. Depending on the structure and size of the firm, this team may include representatives from the following areas:

- legal and compliance,
- systems and operations (including performance measurement),
- accounting, and
- investment management.

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.

## **Firm-Wide Education**

Even with strong support from management, it is important to obtain buy-in from all areas of the firm that will be involved in the process of achieving compliance. To create real buy-in, others within the firm'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 verifiers can help firms with the process of becoming compliant.

The benefits of using a good consultant or verifier include obtaining:

- valuable input from someone with a thorough knowledge of the GIPS standards,
- a third-party perspective on the firm's strategy for achieving compliance and suggestions on how the strategy might be improved,
- access to knowledge regarding how other firms 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 firm 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 a firm in achieving GIPS compliance and will be used to conduct a verification as well, the firm 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 firm 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 is 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 firms,
- 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 firms 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 Firm

Firms claiming compliance must apply the GIPS Standards for Firms to the entire entity defined as the firm. The definition of the firm, a critical and early step in achieving compliance, appears in Section 1 of the Handbook. This definition is the foundation for firm-wide compliance, and it creates defined boundaries for determining total firm assets.

A firm is defined as an investment firm, subsidiary, or division held out to the public as a distinct business entity. A distinct business entity is a unit, division, department, or office that is organizationally and functionally segregated from other units, divisions, departments, or offices and that retains discretion over the assets it manages and that should have autonomy over the investment decision-making process. Possible criteria for determining this status include:

- Being a legal entity.
- Having a distinct market or client type (e.g., institutional, retail, or private client).
- Using a separate and distinct investment process.

See the Handbook discussion of Provision 1.A.2 for guidance on defining the firm.

## Determining the Assets Included in Total Firm Assets

The definition of the firm delineates the universe of “all” assets that must be included in total firm assets. Both discretionary and non-discretionary assets managed by the firm are included in total firm assets. Total firm assets include assets assigned to a sub-advisor provided the firm

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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.

has discretion over the selection of the sub-advisor. Advisory-only assets and assets for uncalled committed capital are not included in total firm assets. All portfolios included in total firm assets must be considered for inclusion in composites. A composite is an aggregation of one or more portfolios that are managed according to a similar investment mandate, objective, or strategy. See the Handbook discussion of Provision 2.A.1 for guidance on total firm assets.

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

How long it will take a firm 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 a firm's systems or the data provided by external third parties meets the requirements of the GIPS standards. Section 2 of the Handbook is particularly helpful because it addresses requirements for input data and calculation methodology, as well as numerical information for time-weighted and money-weighted return reports.

Is the data produced by in-house accounting and performance measurement systems, or provided by third parties, 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?

If a firm is relying on third-party service providers for performance and performance-related data, it is the responsibility of the firm 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 firm has assessed the capabilities of its in-house systems and the data provided 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 the firm can present when it first claims compliance.

The firm must initially present at least five years of performance that meets the requirements of the GIPS standards, building up to a minimum of 10 years. If the composite or pooled fund has been in existence for less than five years, then performance must be presented since the inception of the composite or pooled fund.

If the firm can initially attain compliance for more than five years and therefore can present more than five years of compliant performance, it is encouraged—but not required—to do so.

## Defining Composites

As mentioned previously, a composite is an aggregation of one or more portfolios that are managed according to a similar investment mandate, objective, or strategy. Firms must create composites for the firm's strategies that are managed for or offered as a segregated account. All actual, fee-paying, discretionary portfolios must be included in at least one composite if they meet a composite definition. Section 3 of the Handbook provides guidance on defining and creating composites.

## Classifying Pooled Funds

Firms that manage pooled funds must classify each of their pooled funds as either a limited distribution pooled fund or a broad distribution pooled fund. A broad distribution pooled fund (BDPF) is a pooled fund that is:

- regulated under a framework that would permit the general public to purchase or hold the pooled fund's shares, and
- is not exclusively offered in one-on-one presentations.

A limited distribution pooled fund (LDPF) is any pooled fund that is not a broad distribution pooled fund. The GIPS standards differentiate requirements based on pooled fund type, so a firm must review all pooled funds within the firm definition to determine which requirements apply to which funds.

The Handbook discussion of Provision 1.A.13 provides guidance for classifying pooled funds.

## Providing GIPS Reports to Prospective Clients and Prospective Investors

There are two types of GIPS Reports—a GIPS Composite Report and a GIPS Pooled Fund Report. A GIPS Composite Report is a presentation for a composite that contains all of the information required by the GIPS standards. A GIPS Pooled Fund Report is a presentation for a pooled fund that contains all of the information required by the GIPS standards. A firm must make every reasonable effort to provide a GIPS Report to all prospective clients (prospects interested in a segregated account) and prospective investors (prospects interested in a pooled fund) for limited distribution pooled funds. The Handbook explanations of Provisions 1.A.11–1.A.15 address the distribution of GIPS Reports.

## Creating the Road Map

### The 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. Once a firm establishes its policies and procedures, it must apply them consistently. Because the GIPS standards are not static and may change over time, firms must establish policies and procedures to identify any changes in the GIPS standards that affect them.

Firms 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 a firm:

- 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.

A Guide for Creating a GIPS Standards Policies and Procedures Manual for Firms is available on the GIPS standards website, under Resources for Firms.

### Preparing GIPS Reports

A GIPS Report must be created for each prospective client or prospective investor.

The GIPS Report contains all the required information that must be presented to the prospective client or prospective investor. Other information may be included in the GIPS Report as well, as long as it is not false or misleading and does not contradict any of the required information.

See Sections 4 through 7 of the GIPS Standards for Firms for the information that must be included in a GIPS Report for a composite or pooled fund.

The quantitative and qualitative information included in a GIPS Report is designed to help prospective clients and prospective investors interpret the firm's performance record for the composite or pooled fund being presented. See Appendix A of the GIPS Standards for Firms for sample GIPS Composite Reports and Appendix B for sample GIPS Pooled Fund Reports. The look and format of the GIPS Report are left to the discretion of the firm.

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

## **Notifying CFA Institute of the Firm's Claim of Compliance**

When a firm is finally ready to claim compliance with the GIPS standards, the firm 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 firm 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 a firm 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 firm 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.

Firms 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

Firms 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 firm. 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 a firm is, at some point, an error—either inaccurate or missing data or information—is likely to be discovered in a GIPS Report. The GIPS standards require firms to:

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

Some best practices for firms 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 firm's assessment and determination of materiality,
- establishing who is responsible for each step of the error correction policy, and
- involving multiple parties within the firm in reviewing errors.

When an error occurs, a firm 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 a firm's policies and procedures. In some cases, it may point to the need for less manual processing and increased automation.



See the discussion of Provisions 1.A.20 and 1.A.21 in the GIPS Standards Handbook for additional information on establishing error correction policies. A sample error correction policy is included on the GIPS standards website on the Firm Resources webpage.

## Verification

Verification is a process by which an independent verifier conducts testing of a firm on a firm-wide basis, in accordance with the required verification procedures of the GIPS standards. Verification is intended to provide a firm, and prospective clients and prospective investors, additional confidence in the firm's claim of compliance with 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
- implemented on a firm-wide basis.

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

The benefits of a good verification process include:

- increased confidence in the firm's claim of compliance,
- independent evaluation of a firm's internal controls by someone who knows how to find weak spots in the GIPS compliance process,
- a third-party perspective on the firm's compliance process and recommendations on how it can be improved, and
- access to knowledge of what other firms 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 a firm find more efficient ways to achieve and maintain GIPS compliance.

The value of a verification depends critically on the quality of the verifier hired. Firms 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.

Firms 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 composite or pooled fund. 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 firm. Although a verifier can advise a firm 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:

- **A firm-wide culture of compliance**  
A culture of compliance implies that everyone within the firm has an understanding of the importance of compliance in all aspects of the firm’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 regulators, legal and compliance, internal auditors, and verifiers that the documented policies and procedures are being consistently applied.
- **A review process for GIPS Reports**  
There should be a robust review process to ensure that all of the required information is included in GIPS Reports and that the required information, as well as any other information included in the reports, 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

Firms 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 a firm'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. A firm 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, firms 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 firm. That result is worth the effort.

