



Global Investment Performance Standards

GUIDANCE STATEMENT ON VERIFIER INDEPENDENCE WHEN VERIFYING FIDUCIARY MANAGERS

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GUIDANCE STATEMENT ON VERIFIER INDEPENDENCE WHEN VERIFYING FIDUCIARY MANAGERS

Introduction

Verification is a process by which a verification firm (“verifier”) assesses whether a fiduciary management provider’s (“Fiduciary Manager’s”) policies and procedures related to composite maintenance, as well as the calculation, presentation, and distribution of performance, have been (a) designed in compliance with the Global Investment Performance Standards (GIPS®) for Fiduciary Management Providers to UK Pension Schemes (“GIPS standards for FMPs”) and (b) implemented on a Fiduciary Manager-wide basis.

Verification must be performed by a qualified independent third party. For the verifier to be an “independent third party,” there must be no independence issues between the verifier and the Fiduciary Manager. Independence issues must be resolved for the verifier to be independent. If any independence issue is not resolved, the verifier is not independent. The purpose of this Guidance Statement is to guide Fiduciary Managers and their potential or current verifiers in the process of determining whether independence issues exist between them.

The Fiduciary Manager has the ultimate responsibility for appointing a qualified verifier. The Global Investment Performance Standards (GIPS®) for Verifiers When Verifying Fiduciary Managers (“GIPS standards for Verifiers When Verifying FMs”) require independence as part of a verifier’s qualification requirements. Verifier qualification requirements are discussed in the GIPS standards for Verifiers When Verifying FMs. The self-regulatory nature of the GIPS standards for FMPs necessitates a strong commitment to ethical integrity on the part of the Fiduciary Manager as well as the verifier.

This guidance also applies to performance examinations, if conducted. The term “verification report” as used in this document refers to both the Fiduciary Manager-wide verification report and the performance examination report(s), if applicable. For further information on performance examinations, please see the GIPS standards for Verifiers When Verifying FMs.

This Guidance Statement serves as minimum guidance. The verifier must also adhere to any applicable professional independence guidance. If any conflicts exist between this

guidance and the verifier's professional independence guidance, the verifier must adhere to whichever guidance is more restrictive.

Defining Independence

Defining the term "independence" is not a simple process. Crucial to the verification process is the assumption by all interested parties that the verifier performs its service in an unbiased manner and is not testing its own work. If the Fiduciary Manager 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.

When considering a verification engagement, the Fiduciary Manager and the verifier must determine whether any independence issues exist between the two organizations. The verifier must create and document its own policies and procedures that address independence at both the verification firm and employee level. At a minimum, the verifier must provide to the Fiduciary Manager, upon request, a summary of its independence policies. The Fiduciary Manager should create and document its own policies and procedures that address independence. The Fiduciary Manager should consider drawing on the resources from its own GIPS standards oversight committee, if one exists.

During the process of determining whether any independence issues exist, both the Fiduciary Manager and the verifier must be cognizant of actual as well as perceived independence issues. When considering verifier independence, each organization must keep in mind the following question: *If a prospective or current client of the Fiduciary Manager places reliance on the fact that the Fiduciary Manager has been verified, could the prospective or current client's perception of the value of the verification potentially be changed if the prospective or current client knew about other existing relationships between the Fiduciary Manager and the verifier?*

If the Fiduciary Manager is contemplating hiring a verifier that offers other products or services (together, "other services") that the Fiduciary Manager could or does use, the Fiduciary Manager must take additional steps to gain an understanding of how the verifier maintains independence from the Fiduciary Manager. For verifiers that provide other services in addition to verification, it may prove difficult for the verifier to identify all the other services provided by the verifier's organization.

For example, a verifier may serve in an advisory role in a corporate acquisition/sale, which would not be disclosed to the verifier's or Fiduciary Manager's employees involved with the verification engagement. Depending on the nature of the other services provided to the Fiduciary Manager by the verifier, an independence issue may or may not be created. Verifiers must establish policies and procedures to attempt to identify all other

services provided to a Fiduciary Manager so that any potential effect on independence may be assessed.

The verifier and the Fiduciary Manager must spend as much time as is reasonably necessary for them to agree that none of the relationships between the two organizations will impair the independence of the verifier.

Independence Issues

The verifier and the Fiduciary Manager must discuss with each other identified issues that could potentially affect independence as they arise. The verifier and the Fiduciary Manager must determine whether these issues can be resolved such that independence is achieved. The verifier must document the conclusions reached and the rationale for their conclusions. Disclosure alone does not resolve an independence issue.

It may be helpful for both the verifier and the Fiduciary Manager to consider independence as a continuum. At one extreme of the continuum is a verifier with no other relationships with the Fiduciary Manager. At the other extreme is a verifier with existing relationships and independence issues with the Fiduciary Manager that cannot be resolved, such that the verifier cannot conduct the engagement because independence cannot be achieved. The verifier and the Fiduciary Manager must determine where on this continuum their relationship lies and whether it is appropriate to proceed with the verification engagement.

When a verifier determines that an independence issue prevents it from continuing to provide verification services to a Fiduciary Manager, the verifier must immediately inform the Fiduciary Manager of the independence issue. The verifier and the Fiduciary Manager must also determine whether the newly discovered independence issue extends to any periods that have been previously verified. If it does, the Fiduciary Manager must cease making any claims of verification for the period the independence issue existed and the verifier must rescind any previously issued verification reports covering the affected time period. The Fiduciary Manager may choose to subsequently have the affected time period verified by an independent third party.

Guiding Principles

- The verifier must be independent from the Fiduciary Manager.
- The verifier and the Fiduciary Manager must adhere to this Guidance Statement.
- The verifier must adhere to any independence guidance for its profession, if applicable.

- The verifier must create and document its own policies and procedures that address independence.
- To the best of their ability, the verifier and the Fiduciary Manager must consider their entire relationship when analyzing potential independence issues.
- The verifier must conclude that the verifier is independent prior to the start of the engagement, as evidenced by the engagement letter.
- The verifier and the Fiduciary Manager must discuss—and the verifier must document—all potential independence issues that arise during or after the engagement and how they are resolved.
- All independence issues must be adequately resolved prior to issuing a verification report.
- If at any time an independence issue cannot be adequately resolved, the verifier must not perform or continue to perform the verification.
- The verifier's independence must be affirmed by the verifier at the conclusion of the engagement, as evidenced by the issuance of the verification report.
- The verification report must include language indicating that the verifier is independent from the Fiduciary Manager. This can be accomplished by including the word "independent" in the report title (e.g., "Independent Verification Report"). The verifier may also include a statement acknowledging its independence within the verification report.
- The verifier and the Fiduciary Manager must reassess independence whenever any new information comes to light during or after the engagement that could affect independence. The conclusions reached and rationale for the conclusions must be documented by the verifier.
- If it is determined that the verifier issued a verification report to the Fiduciary Manager when the verifier was not or is not independent of the Fiduciary Manager, the Fiduciary Manager must cease making any verification claim for the period for which the verifier was not independent and must consider this to be a material error.
- Verifiers must not engage in the following:
 - ♦ stepping into a management role on behalf of the Fiduciary Manager;
 - ♦ undertaking any management function or a decision-making role relative to the implementation of and compliance with the GIPS standards for FMPs; or
 - ♦ testing their own work.
- "Management functions" are tasks and responsibilities that are related to the GIPS compliance process. Management functions include, but are not limited to, the following:
 - ♦ identifying all schemes of the Fiduciary Manager;
 - ♦ assigning schemes to composites;

- ♦ determining Fiduciary Manager definition;
- ♦ determining discretion definition or scheme discretionary status;
- ♦ creating composite criteria;
- ♦ selecting benchmarks used in scheme relative returns;
- ♦ establishing or modifying policies and procedures;
- ♦ calculating scheme relative or composite relative returns; and
- ♦ preparing GIPS Composite Reports.

Assessment of Verifier Independence

In addition to verification services, verifiers may provide other services to the Fiduciary Manager. The verifier must be particularly cognizant of its role as adviser to the Fiduciary Manager on issues relating to compliance with the GIPS standards for FMPs. The verifier must take into account other services currently or previously provided to the Fiduciary Manager, particularly if the period covered by the other services is also covered by the verification. Independence issues must be resolved in order for the verifier to be independent.

Because each situation is unique, the following section contains considerations of other services provided by the verifier. Although not exhaustive, these considerations are provided to assist verifiers in more precisely defining the types of other services that result in an independence issue.

Consideration of Other Services Provided by the Verifier

Other services can include services both related and not related to GIPS compliance. When the verifier provides other services related to GIPS compliance, the verifier must not step into a management role or undertake any management function. Further, the verifier must not perform or have performed in the past any other services that would result in the verifier reporting on its own work and decisions or calling its own work into question during the verification.

Other services performed by an affiliate of the verifier may create an independence issue. Such other services must be considered as being performed by the verifier and must be evaluated as potential independence issues. An affiliate is any undertaking that is connected to another by means of common ownership, control, or management.

Examples of other services provided to a Fiduciary Manager that, if performed by the verifier, are unlikely to create an independence issue include the following:

- providing advice to the GIPS compliance project management team (but this must not include making decisions on these issues for the Fiduciary Manager);
- identifying issues that hinder a Fiduciary Manager's compliance with the GIPS standards for FMPs;
- educating Fiduciary Manager personnel about the GIPS standards for FMPs and the compliance process;
- providing advice on GIPS standards for FMPs implementation or compliance issues;
- providing generic examples of GIPS Composite Reports;
- providing GIPS compliance checklists;
- providing formulas and calculation examples;
- providing training on performance-related topics;
- providing examples of policies and procedures language;
- reviewing results of performance-system conversion testing; and
- providing advice on selecting a new performance measurement system (the verifier must not receive any monetary or non-monetary compensation from the system providers for their review or recommendation).

Examples of other services provided to a Fiduciary Manager that, if performed by the verifier, create an independence issue include but are not limited to the following:

- establishing policies and procedures;
- functioning as a project manager or as a member of the Fiduciary Manager's GIPS compliance project management team that has responsibility for performing management functions (e.g., constructing composites, establishing policies);
- making decisions about GIPS compliance issues for the Fiduciary Manager;
- assigning schemes to composites;
- identifying all schemes of the Fiduciary Manager;
- identifying and/or defining composites of the Fiduciary Manager;
- collating or creating the underlying data required to calculate scheme relative or composite relative returns or other numerical information presented in GIPS Composite Reports, including the following:
 - ♦ providing systems used to calculate underlying data and
 - ♦ providing valuation or reconciliation services;
- providing asset servicing (e.g., custody, depositary, administration, and transfer agency services);
- calculating benchmark returns used in scheme relative returns;

- calculating scheme relative or composite relative returns or other statistics included in GIPS Composite Reports;
- preparing GIPS Composite Reports;
- implementing a new performance measurement system for the Fiduciary Manager; and
- functioning as a data warehouse on behalf of the Fiduciary Manager (the verifier can maintain data duplicated for its own purposes, but these data must not serve as the Fiduciary Manager's primary data source).

Other Issues That Must Be Considered When Determining a Verifier's Independence Status

Other issues that are not directly related to verification services or GIPS compliance may affect a verifier's independence. For example, if the verifier serves as an advocate for the Fiduciary Manager (e.g., the verifier promotes the Fiduciary Manager in order to solicit clients on the Fiduciary Manager's behalf) or acts on behalf of the Fiduciary Manager in disputes with third parties, it likely creates an independence issue.

A verifier and its employees must also consider their personal and financial relationships with their clients and consider whether the verifier and its employees are, in fact, independent or could be influenced by such relationships. Mere disclosure of a personal or financial relationship does not resolve the independence issue.

Examples of relationships for a verifier and/or its employees that could create an independence issue include but are not limited to the following:

- Employment at the verification client of immediate family members (e.g., spouse, parents, children, siblings) of members of the verification team, who are able to significantly influence the verification or matters relating to the Fiduciary Manager's compliance with the GIPS standards for FMPs;
- Providing and receiving non-trivial gifts and non-trivial entertainment between the verifier and verification client;
- Any discount received by the verification client on other products, such as software or an errors and omissions insurance policy, resulting from a relationship between the verifier and the product provider;
- The verifier's relationship with a performance software provider whereby the verifier receives a referral fee or non-trivial gifts and non-trivial entertainment whenever it successfully recommends the software to a verification client; and
- Personal investments by members of the verification team and their immediate family members in the verification client and the verification client's investment products.

Effective Date

This Guidance Statement must be applied to all verification and performance examination engagements that have a contract date on or after 1 January 2026. The contract date is typically evidenced by the date of the engagement letter signed by management of both the verifier and the verification client. This Guidance Statement may be applied to engagements that have a contract date prior to 1 January 2026, and doing so is encouraged.