

Global Investment Performance Standards (GIPS®) for Verifiers

Adopting Release

The Exposure Draft of the 2020 Global Investment Performance Standards (GIPS®) for Verifiers was available for public comment from 31 October 2018 through 31 December 2018. We received comments from 15 groups and individuals, 11 of which gave permission to have their comment letters posted. Every comment was evaluated and considered, resulting in a recommendation for any needed changes to the guidance. The proposed changes were then reviewed with and approved by the GIPS Standards Verification Subcommittee, Technical Committee, and Executive Committee. This Adopting Release includes key topics and describes our rationale for changes we made, or did not make, to the GIPS Standards for Verifiers.

New Structure for 2020

The 2010 edition of the GIPS standards focused solely on firms, although both firms and asset owners are able to comply with the GIPS standards. In 2014, we issued the Guidance Statement on the Application of the GIPS Standards to Asset Owners, and we updated this document in 2017. This Guidance Statement explained how to apply the GIPS standards to an asset owner. With the 2020 edition of the GIPS standards, we took the opportunity to create provisions specific to asset owners. In the Exposure Draft of the 2020 GIPS standards (2020 Exposure Draft), we included sections 1 through 7 for firms, sections 8 through 12 for asset owners, section 13 for GIPS Advertising Guidelines that covered both firms and asset owners, and a glossary. We also combined existing verification and performance examination guidance into a separate document for verifiers.

Rather than having one document that included the provisions for both firms and asset owners, as well as guidance for verifiers, we divided the GIPS standards into three separate documents (chapters): one for firms, one for asset owners, and one for verifiers.

- The GIPS Standards for Firms include sections 1 through 8 and a glossary applicable to firms. Sections 1 through 7 include the same content as they did in the 2020 Exposure Draft. Section 8 includes the GIPS Advertising Guidelines that are applicable to firms, and the glossary includes only those defined terms (those that appear in small capitals in the provisions) that apply to

firms. We added appendices that include samples of GIPS Composite Reports, GIPS Pooled Fund Reports, GIPS Advertisements, and lists of composite and pooled fund descriptions.

- The GIPS Standards for Asset Owners start with section 21. We started the section numbering for the GIPS Standards for Asset Owners at section 21 to allow for expansion of the GIPS Standards for Firms. Sections 21 through 25 include the same content as sections 8 through 12 of the 2020 Exposure Draft. Section 26 includes the GIPS Advertising Guidelines that are applicable to asset owners, and the glossary includes only those defined terms (those that appear in small capitals in the provisions) that apply to asset owners.
- The GIPS Standards for Verifiers constitute the third chapter of the 2020 GIPS standards. This chapter includes guidance that verifiers must follow when conducting verifications and performance examinations, and it replaces the existing Guidance Statements on Verification and Performance Examinations. A glossary includes only those defined terms (those that appear in small capitals) that appear in this chapter. This chapter does not include the Verifier Independence Guidance Statement, which we plan to finalize in the near future.

We believe the new structure will allow for future expansion of the GIPS standards, as well as the addition of other types of standards in the future.

Comments on Key Topics

1. Verification and Performance Examination Procedures

Overview

We have received feedback over the years that some verifiers are not performing sufficient testing procedures and that the quality of verification work across verification firms is uneven. The Verification Procedures as listed in the 2010 edition of the GIPS standards are meant to be a minimum level of testing. In some cases, verifiers currently conduct testing that goes well beyond what is written in the 2010 edition. In other cases, however, they are performing the minimum level of testing by following the procedures in the 2010 edition exactly as written. We determined that the verification procedures needed further elaboration to properly reflect the work a verifier is expected to perform.

We also wanted to ensure that the required testing procedures are comprehensive and worded in such a way that they are easily understood. The 2020 Exposure Draft clarified the current testing requirements, by testing area, for all areas typically tested by a verifier when conducting verifications

and performance examinations. We also updated the verification procedures to conform to the 2020 GIPS Standards for Firms and the 2020 GIPS Standards for Asset Owners.

Based on numerous discussions with our verifier volunteers, we included additional areas of testing in the 2020 Exposure Draft, such as portability, error correction, and marketing materials. The inclusion of these additional areas of testing is not intended to increase the scope of verification. Rather, it is meant to reflect current appropriate verification testing practices. We acknowledge that as the GIPS standards evolve to cover more areas (e.g., overlay strategies), additional testing could be required. The same would be true for any standard that evolves over time.

We also make clear in the 2020 GIPS Standards for Verifiers that the verifier must test all of the information included in any GIPS Composite Report or GIPS Pooled Fund Report (“GIPS Reports”) selected for testing. For example, we included references to overlay exposure, advisory-only assets, and uncalled committed capital in the required procedures because verifiers need to perform testing on these items if they are included in a GIPS Report that has been selected for testing.

Level of Detail

Although most respondents generally agreed with the proposed required testing procedures, we also received comments that the procedures were too detailed and overly prescriptive. We believe that the level of required testing strikes the right balance for ensuring the appropriate minimum level of testing is done while allowing for a suitable level of judgment in how verifiers choose to perform their testing procedures. We often use language in this chapter such as “the verifier must perform sufficient procedures to determine that,” and we are not prescribing how each testing step must be performed or the quantity of items that must be tested. The increased level of detail we have provided should help many verifiers to better understand the purpose of each required testing procedure and the type of testing the verifier is expected to perform. If we leave too many of the testing procedures to the verifier’s judgment, there is a risk that the verifier may perform insufficient procedures to render the verification report. This situation would decrease the value of verifications and lead to reputational risk.

Testing by Inquiry

In the 2020 Exposure Draft, we stated that testing by inquiry on its own is insufficient to satisfy the required verification procedures. We wanted to make the point that when other testing procedures are specified and may be performed, a verifier may not substitute testing by inquiry only. A few respondents pointed out that inquiry may be the only type of testing that is possible to be performed in certain

situations. If that is the case, we agree that testing by inquiry only will suffice. We agree that the use of the word "inquiry" was confusing when describing the minimum procedures that must be performed for testing both marketing materials and error correction, because we had indicated that testing by inquiry on its own is insufficient. Therefore, we changed the description of the testing that must be performed for these specific testing areas.

Materiality Framework

One respondent commented on the lack of a materiality framework to evaluate errors and omissions. We agree that it would be helpful to create materiality guidance for the purpose of defining error correction materiality, as well as for verifiers to use when assessing errors and omissions. This topic is being considered for future guidance but will not be contained within the 2020 GIPS standards, including the 2020 GIPS Standards for Verifiers.

Testing the Distribution of GIPS Reports

Some respondents thought the requirement to test a firm's distribution of GIPS Reports was too onerous and not feasible. Per the 2020 GIPS Standards for Firms, a firm is required to demonstrate how it made every reasonable effort to provide the appropriate GIPS Report to prospective clients and prospective investors. We believe that the required distribution of such reports is an important area that the verifier must test. Therefore, we retained the requirement for the verifier to perform sufficient procedures to determine that the firm has made every reasonable effort to provide the appropriate GIPS Report in accordance with the requirements of the 2020 GIPS standards.

The 2020 Exposure Draft included a proposed requirement for the verifier to test that the firm provided an updated GIPS Report at least once every 12 months to prospective clients and to investors that remained prospects. We agree that this testing was too onerous, so we have deleted this proposed testing requirement.

We had also proposed requiring the verifier to take a sample of prospects and test to ensure that they received any required GIPS Reports. We deleted this requirement as well. We agree that this testing also was not feasible.

2. Verification and Performance Examination Report Language

The GIPS Standards for Verifiers specify language that must be included in verification and performance examination reports. As described in the 2020 Exposure Draft, we reassessed the wording of the

verification reports issued by the verifier because the current wording of the verification report is not consistent with the required testing procedures. We believe that the new verification report wording is now more closely aligned with the required testing procedures. We also modified the language for performance examination reports in order to align with changes reflected in the 2020 GIPS standards. Most respondents agreed with the proposed revisions to the report language.

Some respondents suggested that the verification and performance examination reports should be required to reference the use of sampling. We agree that these reports should state that verification and performance examination procedures are conducted on a sample basis, and we added language to that effect.

Some respondents thought the verification report read as if the verifier was opining on the firm's or asset owner's operating effectiveness. It is important that the user of the verification report understand the scope of the verification, as well as the assurance that the verifier is and is not providing. We therefore added language requiring the verification report to include a statement indicating that the verification does not provide assurance on the firm's controls or operating effectiveness.

One respondent suggested that the GIPS standards should require the verification report to include the concept of materiality. We agree. We added "in all material respects" to the language that must be included in verification and performance examination reports. The 2020 GIPS Standards for Verifiers include sample verification and performance examination reports.

3. Approach for Asset Owners

The GIPS Standards for Verifiers do not include verification guidance specific to asset owners. Incorporating the concept of asset owners into the document is not as simple as changing the use of the word "Firm" to "Asset Owner." In addition to differences in terms, the testing procedures would need to be adapted to each asset owner based on its specific facts and circumstances.

In the 2020 Exposure Draft, we indicated that, when conducting a verification for an asset owner, verifiers must interpret references to firms as also referring to asset owners and must interpret references to composites as referring to total funds and additional composites. We also indicated that verifiers that conduct verifications for asset owners must follow the required verification procedures to the extent possible, and they must tailor these procedures to fit the unique facts and circumstances of the asset owner as necessary. The same guidance was given for a verifier conducting a performance examination for an asset owner. Verifiers must document their rationale for their testing approach,

including why any required procedure was modified for or not appropriate to asset owners. Although one respondent commented that the requirement to conduct verifications for asset owners in accordance with the required verification procedures to the extent possible should be changed to a recommendation, the majority of respondents agreed with this approach.

We acknowledge that it would be helpful to provide more guidance specific to asset owners. Such a project is too extensive to take on at this time, however. Currently, only a limited number of asset owners worldwide claim compliance, so we have a small number of verifiers with asset owner verification experience. As more verifiers obtain experience conducting verifications for asset owners, we hope to draw on that experience in the preparation of future guidance.

4. Verifier Qualification Requirements

The 2020 Exposure Draft included verifier qualification requirements.

One respondent suggested that the qualification requirements should be expanded to require verifiers to have knowledge of accounting, which is the basis for input data used for calculating performance, as well as audit methodologies. We agree and have modified the text accordingly. We also added language to the performance examination section to clarify that the verifier qualification requirements apply to verifiers that conduct performance examinations.

Effective Date

Verifiers must conduct their engagements in accordance with the 2020 edition of the GIPS Standards for Verifiers for periods for which the verification client claims compliance in conformance with the 2020 edition of the GIPS standards. Because the requirements of the 2020 GIPS standards differ significantly from those of the 2010 edition of the GIPS standards, it is important that the verifier's testing conforms to the 2020 edition of the GIPS standards when the verifier's client adopts the 2020 GIPS standards.

The majority of respondents agreed with this approach. A few respondents suggested that verifiers should not be required to follow the 2020 GIPS Standards for Verifiers if their client early adopts the 2020 edition of the GIPS standards.

We believe that the 2020 GIPS Standards for Verifiers go hand in hand with the 2020 edition of the GIPS standards, and we also believe it is appropriate to tie the verification testing to the verification client's adoption of the 2020 GIPS standards. We also concluded that a verifier may follow the 2020 edition of the GIPS Standards for Verifiers for all periods for which the verification is performed, even for those

periods for which the verification client follows a prior edition of the GIPS standards. We have added a sentence to the effective date language to state this.

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