



CFA Institute[®] Global Investment Performance Standards

GUIDANCE STATEMENT ON VERIFIER INDEPENDENCE

EFFECTIVE DATE: 30 JUNE 2020
PUBLIC COMMENT PERIOD: 28 JUL 2017 – 26 OCT 2017



CFA Institute

© 2020 CFA Institute. All rights reserved.
www.cfainstitute.org

GIPS® is a registered trademark owned by CFA Institute.

© 2020 CFA Institute. All rights reserved.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of the copyright holder.

This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is distributed with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional service. If legal advice or other expert assistance is required, the services of a competent professional should be sought.

GUIDANCE STATEMENT ON VERIFIER INDEPENDENCE

Introduction

The Global Investment Performance Standards (GIPS®) recommend that firms be verified. Verification is a process by which a verification firm (“verifier”) assesses whether a firm’s policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been (a) designed in compliance with the GIPS standards and (b) implemented on a firm-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 firm. Independence issues must be resolved for the verifier to be independent. If the independence issue is not resolved, the verifier is not independent. The purpose of this Guidance Statement is to guide firms and their potential or current verifiers in the process of determining whether independence issues exist between them.

The firm has the ultimate responsibility for appointing a qualified verifier. The GIPS standards require independence as part of a verifier’s qualification requirements. Verifier qualification requirements are discussed in the GIPS Standards for Verifiers. The self-regulatory nature of the GIPS standards necessitates a strong commitment to ethical integrity on the part of the firm 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 firm-wide verification report and the performance examination report(s), if applicable. For further information on performance examinations, please see the GIPS Standards for Verifiers.

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.

Asset Owners

Just as firms may do, asset owners may choose to be verified. Verification is intended to provide an asset owner and its oversight body with additional confidence in the asset owner’s claim of compliance with the GIPS standards. This Guidance Statement does not include independence guidance specific to asset owners. When considering this guidance for conducting a verification or

performance examination of an asset owner, verifiers and asset owners must interpret references to firms and verification clients as also referring to asset owners.

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 firm 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 firm and the verifier must determine if 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 firm, upon request, a summary of its independence policies. The firm should create and document its own policies and procedures that address independence. The firm 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 firm 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 or investor of the firm places reliance on the fact that the firm has been verified, could the prospective or current client’s or investor’s perception of the value of the verification potentially be changed if the prospective or current client or investor knew about other existing relationships between the firm and the verifier?*

If the firm is contemplating hiring a verifier that offers other products or services (together, “other services”) that the firm could or does use, the firm must take additional steps to gain an understanding of how the verifier maintains independence from the firm. For verifiers that provide other services in addition to verification services, it may prove difficult for the verifier to identify all of 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 firm’s employees involved with the verification engagement. Depending on the nature of the other services provided to the firm 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 firm so the potential effect on independence may be assessed.

The verifier and the firm 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 firm must discuss with each other identified issues that could potentially affect independence as they arise. The verifier and the firm 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 firm to consider independence as a continuum. At one extreme of the continuum is a verifier with no other relationships with the firm. At the other extreme is a verifier with existing relationships and independence issues with the firm that cannot be resolved, such that the verifier cannot conduct the engagement because independence cannot be achieved. The verifier and the firm 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 firm, the verifier must immediately inform the firm of the independence issue. The verifier and the firm must also determine whether the newly discovered independence issue extends to any periods that have been previously verified. If it does, the firm 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 firm may choose to subsequently have the affected time period verified by an independent third party.

Guiding Principles

- The verifier must be independent from the firm.
- The verifier and the firm 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 firm 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 firm must discuss, and the verifier must document, all potential independence issues that arise during or after the engagement and how they were 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.

Guidance Statement on Verifier Independence

- 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 firm. This can be accomplished by including the word “independent” in the report title (e.g., using the title “Independent Verification Report”). The verifier may also include a statement acknowledging its independence within the verification report.
- The verifier and the firm 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 firm when the verifier was not, or is not, independent of the firm, the firm 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 firm;
 - ◆ undertaking any management function or a decision-making role relative to the implementation of and compliance with the GIPS standards; 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 portfolios of the firm;
 - ◆ classifying pooled funds as limited distribution pooled funds or broad distribution pooled funds;
 - ◆ assigning portfolios to composites;
 - ◆ determining firm definition;
 - ◆ determining discretion definition or portfolio discretionary status;
 - ◆ creating composite criteria;
 - ◆ selecting composite or pooled fund benchmarks;
 - ◆ establishing or modifying policies and procedures;
 - ◆ calculating portfolio, pooled fund, or composite returns; and
 - ◆ preparing GIPS Reports.

Assessment of Verifier Independence

In addition to verification services, verifiers may provide other services to the firm. The verifier must be particularly cognizant of its role as adviser to the firm on issues relating to compliance

with the GIPS standards. The verifier must take into account other services currently or previously provided to the firm, 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 both GIPS-compliance-related and non-GIPS-compliance-related services. When the verifier provides other services that are GIPS compliance related, 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 firm 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 firm;
- identifying issues that hinder a firm's compliance with the GIPS standards;
- educating firm personnel about the GIPS standards and the compliance process;
- providing advice on GIPS standards implementation or compliance issues;
- providing generic examples of GIPS 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 nonmonetary compensation from the system providers for their review or recommendation.

Examples of other services provided to a firm 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 firm's GIPS compliance project management team that has responsibility for performing management functions (e.g., constructing composites, establishing policies, etc.);
- making decisions about GIPS compliance issues for the firm;
- assigning portfolios to composites;
- identifying all portfolios of the firm;
- identifying and/or defining composites of the firm;
- collating or creating the underlying data required to calculate portfolio, pooled fund, or composite returns, or other numerical information presented in GIPS 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 portfolio, composite, or benchmark returns or other statistics included in GIPS Reports;
- preparing GIPS Reports;
- implementing a new performance measurement system for the firm; and
- functioning as a data warehouse on behalf of the firm. The verifier can maintain data duplicated for its own purposes, but these data must not serve as the firm'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 firm (e.g., the verifier promotes the firm in order to solicit clients on the firm's behalf) or acts on behalf of the firm 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 they 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 firm's compliance with the GIPS standards;
- Providing and receiving of 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 30 June 2020. 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 30 June 2020, and doing so is encouraged. Prior versions of this Guidance Statement are available on the GIPS standards website (www.gipsstandards.org).

