

Key Checklists for Implementing and Maintaining GIPS Compliance

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The Global Investment Performance Standards (GIPS®) are a voluntary set of principles for performance reporting focused on fair representation and transparent disclosure.¹ Achieving compliance with the GIPS standards is a significant accomplishment for an asset manager, which brings several important benefits, including:

- Demonstrating to prospective and existing clients and investors and regulatory agencies that the asset manager supports a globally accepted set of principles for calculating and presenting investment performance;
- Showing a commitment to best practices for valuing investments, creating comprehensive performance policies and procedures, and calculating and presenting investment performance that is consistent and transparent; and
- Improving operational and recordkeeping procedures and enhancing internal communication throughout all impacted departments.

To demonstrate robust compliance with GIPS standards, many firms opt to engage in a verification process, in which an independent verifier conducts testing on a firm-wide basis in accordance with the required procedures. Verification provides assurance that the firm's GIPS standards policies and procedures, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the standards and have been implemented across the firm. In addition, verification may help firms advance further in RFP processes.

Firms that develop customized procedures for their GIPS standards program have an easier time maintaining compliance and completing an efficient verification. One key way to enhance GIPS standards policies and procedures is to create tailored checklists for important aspects of the compliance program.

Composite Construction Checklists

Because composite construction is the foundation for reporting performance, ensuring the composition of composites is accurate throughout the year can help firms avoid potential reporting errors and restatements. To establish accuracy, firms should have specific policies and procedures for when accounts:

- open and enter composites;
- terminate and exit composites; and
- move between composites due to a mandate change.

A well-run program will include procedural checklists for each of the activities listed above. The checklist should include relevant facts and circumstances (both ordinary and client-specific) to help create a fully documented roadmap for why and when an account is assigned to or unassigned from a composite. This documentation will be especially helpful during a GIPS standards verification and may also prove useful during regulatory reviews.

1. More information regarding the 2020 GIPS Standards can be found at: <https://www.cfainstitute.org/en/ethics-standards/codes/gips-standards/firms>.

Client Intake Checklist

Client Name:	
Account Code:	
Contract Date:	
Funding Date:	
Discretionary for GIPS standards purposes (yes or no):	
Mandate selected:	
Restrictions, if any:	
Targeted composite assignment:	
First day of composite inclusion:	
Discussion if inclusion timing does not match policy:	
Prepared By:	
Date:	
Reviewed By:	
Date:	

Preparing GIPS Report Checklists

GIPS compliant firms are required to deliver GIPS Composite reports or GIPS Pooled Fund reports to prospective clients and prospective investors. A prospective client is a person or entity that has expressed interest in one of the firm’s composite strategies and qualifies to invest in the composite. A prospective investor is a person or entity that has expressed interest in one of the firm’s pooled funds and qualifies to invest in the pooled fund.

Firms must present GIPS Composite reports to prospective clients and may present either GIPS Pooled Fund reports or GIPS Composite reports to prospective investors. If the firm chooses to provide GIPS Composite reports to a prospective investor, the pooled fund in which the prospective investor has expressed interest must be included in the composite represented by the GIPS Composite report. Collectively, the two types of reports are referred to as GIPS reports.

GIPS Composite reports and GIPS Pooled Fund reports have many similar numerical and disclosure requirements, but also differ in some important respects. Firms should create a master list of composites and pooled funds and identify the type of report being maintained and distributed for each. To make certain GIPS reports include all required numerical data and disclosures, firms should complete a Preparing GIPS Composite Report or Preparing GIPS Pooled

Fund Report checklist that is tailored to its specific circumstances for each composite and pooled fund that is distributed.

Customizing these checklists should first be done at the firm level, since certain provisions are not applicable to all firms. For example, if it is firm policy to not manage wrap accounts, then those provisions within the GIPS standards should not be included in the firm's Preparing GIPS report checklist. These checklists should include notations about decisions that impact the reports, which will be useful documentation when a verifier or regulatory examiner reviews presentations. In addition, when new products are started, these checklist notes will help provide context for the new product's GIPS report numerical data and disclosure decisions.

Working with verifiers and subscribing to CFA Institute's GIPS Standards Newsletter can help ensure any new guidance released that impacts GIPS report data and disclosures gets incorporated into these checklists prospectively. Firms should use the updated checklists to review existing GIPS reports and ensure new requirements are incorporated.

Error Correction Checklist

Unfortunately, errors within GIPS reports may arise. The GIPS standards require firms to establish policies and procedures for assessing an error's materiality and for correcting the error. A firm's error correction policy should include materiality thresholds (usually expressed as a percentage, basis point, or a combination of the two) for each numerical component and classifications for determining whether an erroneous or omitted disclosure is material or immaterial. The materiality thresholds will correspond to a firm action level. Typical action levels include:

1. Error is classified as immaterial, and no action is taken.
2. Error is classified as immaterial, and the GIPS report is corrected.
3. Error is classified as immaterial, and the GIPS report is corrected with a disclosure included.
4. Error is classified as material, and the GIPS report is corrected, a disclosure is included, and the corrected GIPS report is provided to any recipient that relied upon or is continuing to rely upon the report (including the current and any former verifier).

A best practice in this respect is to create and implement an error correction checklist to be completed in the event of an error. The checklist should address the important facts around the error, work through any impact analysis, identify any necessary modifications to policies and procedures, and document enhancements to procedures.

Error Correction Checklist

Date of error:	
Error discovery date:	
Portfolio(s) impacted, if applicable:	
Composite(s) impacted:	
Brief summary of error:	
Facts surrounding the error:	
Calculations illustrating the impact, if applicable:	
Determination of materiality/action level:	
Description of actions taken:	
Description of modifications to procedures to mitigate this error in the future, if applicable:	
Prepared By:	
Date:	
Reviewed By:	
Date:	

GIPS Advertisement Checklist

GIPS compliant firms have the option to reference their compliance with the standards outside of a GIPS report but may only do this while following the GIPS Advertising Guidelines. Creating a GIPS Advertisement checklist that can be used by a firm’s marketing department will help firms make proper references to the GIPS standards. The checklist will provide a framework for marketing pieces claiming GIPS compliance that do not include a GIPS report, whether they are website postings, news publications, social media announcements, fact sheets, or pitchbooks. For example, a firm can advertise GIPS compliance on its website without including performance by making three disclosures:

1. “[Insert name of firm] claims compliance with the Global Investment Performance Standards (GIPS®).”
2. “GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.”
3. [Disclose how] to obtain GIPS-compliant performance information for the firm’s strategies and products.

The requirements for GIPS Advertisements become lengthier when a marketing piece includes performance. There are several options to choose from when presenting performance returns

as well as a few disclosures in addition to the three listed above. The requirements vary for composite and pooled fund presentations. Separate checklists for specific scenarios should be used by personnel creating marketing materials, to encourage completeness and consistency.

Annual Independence Review

New in the 2020 GIPS standards is a provision requiring firms that do engage in the optional verification process to gain an understanding of their verifier's policies for maintaining independence and to consider the verifier's assessment of independence. Since verification must be done in an unbiased manner, firms and verifiers must ensure their relationship is independent.

The independence assessment should be considered an ongoing process with evaluation at the beginning and conclusion of each engagement, as well as during an engagement if any issues arise that may call independence into question. Maintaining a checklist for this review process that is completed annually will ensure that the firm has gained a sufficient understanding of the relationship to conclude whether the verifier's assessment of independence is appropriate.

Conclusion

By developing and using these customized checklists, a firm can significantly enhance its GIPS standards compliance program. Composite construction checklists will improve internal controls and create a timely review function that should limit a firm's exposure to errors in composite construction and the resulting composite performance calculations. Firms should use checklists to improve recordkeeping which is vital to successful verifications and regulatory reviews. Tailored checklists used for marketing, both GIPS reports and GIPS advertisements, will establish a framework for stakeholders that will be efficient and encourage consistency and compliance with the GIPS standards on a long term basis.

With the new SEC Marketing Rule under the Investment Advisers Act of 1940, more firms may consider compliance with the GIPS standards.² Firms choosing not to claim compliance may instead take certain elements of the standards to confirm their marketing meets the SEC's guidance for presenting performance of related portfolios. Many of these checklists are suitable for these firms as well. ■

2. More information regarding the new SEC Marketing Rule can be found at: <https://www.sec.gov/news/press-release/2020-334>