



Basis Point Solutions

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26 October 2017

CFA Institute
Global Investment Performance Standards
Re: Guidance Statement on Verifier Independence
915 East High Street
Charlottesville, VA 22902

Dear Sir or Madam,

Thank you for the opportunity to comment on the proposed changes to the Guidance Statement on Verifier Independence. Independence is a critical issue and is a key element of promoting and ensuring integrity in the marketplace.

Independence is important in maintaining a positive and respectable reputation for the verifier and, at the same time, provides the asset management firm with a critical eye and professional skepticism that is essential for compliance. Nonetheless, there may be a perverse incentive for verifiers and firms to participate in engagements that are not independent. For the verifier, a lack of independence may reflect a relationship with the client firm whereby the verifier may be hesitant to flag too many issues for fear of adversely impacting a personal relationship. For the asset manager, the lack of independence may be viewed (or even sought) as a way to receive an “easy” verification. The challenge lies in the fact that the only true “policing” of independence is conducted by the two entities that are incentivized to violate that independence. Adherence to rigorous professional standards is necessary on both sides of the verifier-client relationship.

The enhancements to the Guidance Statement are a very positive step forward in strengthening and clarifying the interpretation of the requirement to maintain independence. One point that can be further strengthened is regarding the timing and scope of the assessment of independence. The assessment of independence is not for a point in time, nor should it only be performed at the onset and conclusion of an engagement. In the last paragraph under “Defining Independence”, it is rightly pointed out that a “...reassessment must be made whenever any new information comes to light during or after the engagement that could have an impact on independence.” While I agree with this statement, I think it needs to be strengthened. The assessment should be done on an on-going basis and not only when something comes to light. There should be some level of proactive steps that are taken by both parties to try to identify independence issues throughout an engagement.

In addition, the scope of the independence assessment must be for the entire period of the relationship between the verifier and the asset management firm. Just because an independence issue does not exist at the point in time when an assessment is conducted, it does not mean that independence issues that occurred in the intervening time since the last assessment can be ignored. This point should be strengthened in the Guidance Statement.

The responsibility for ensuring independence lies with both the verification firm and the asset management firm. This point should be highlighted in the “Independence Issues” section. In particular, the last paragraph of that section should reinforce that there is a proactive duty on both the verification firm and the asset management firm to inform the other if an independence issue arises.

In the section titled “Consideration of Other Services Provided by the Verifier”, the second bulleted list identifies products or services that de facto create independence issues. This point should be highlighted and the Guidance Statement should make clear that these services are prohibited if the verification firm is to conduct the verification.

The Guidance Statement addresses many of the products and services associated with a verification. There are issues unrelated to the verification itself that may cause independence issues. These issues should be strengthened and highlighted. Personal relationships between verification staff and asset management staff can cause independence issues. Holding shares of a verification client’s funds creates an independence issue. What if those funds are part of the verification firm’s retirement plan? Many of these issues are addressed through professional standards of various industry organizations, but there is no requirement for a verifier to be a member of those organizations or, therefore, adhere to those professional standards. Accordingly, such issues should be addressed in this Guidance Statement so that all verifiers are covered by the same fundamental principles.

The Guidance Statement poses a question (#2) regarding other relationships that a verification firm may have with other third-party providers. These relationships must be considered when determining independence to the extent that they relate to the verification or the relationship between the verification firm and the asset management firm. For example, if a verification firm has a relationship with a performance software provider and receives a referral fee whenever it successfully recommends the software to a client, this must be disclosed and considered when assessing independence. Anything (product, service, relationship, or otherwise) that could potentially influence or affect independence must be considered.

Finally, one area that the Guidance Statement does not adequately address is if and how independence issues can be resolved. Is it possible to resolve an independence issue? If so, is that limited to only certain types of independence issues? Further guidance on this is needed.

Thank you for the opportunity to provide feedback on this important issue.

Sincerely,

A handwritten signature in black ink that reads "Jonathan Boersma". The signature is fluid and cursive, with the first letter of "Jonathan" being a large, prominent loop.

Jonathan A. Boersma, CFA
CEO
Basis Point Solutions