



**ACA**  
 COMPLIANCE GROUP  
 BEACON VERIFICATION SERVICES

JULY 2009 UPDATE

# ATTEST **BVS**

Hello everyone and welcome to the July edition of the Beacon newsletter. In this month’s issue, we take time to highlight the virtues of the Certificate in Investment Performance Measurement (CIPM) program. The CIPM designation is quickly gaining traction in the finance industry due to its specific focus on performance measurement and presentation. Because of the CIPM’s direct relevance to the services that Beacon provides, we are strong supporters of this designation. In addition, we are thrilled to announce our latest group of colleagues who have passed the different levels of the CIPM examination.

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## INSIDE THIS ISSUE

Philip Lawton, PhD, CFA, CIPM Interview . 1	Conferences . . . . . 4
Upcoming Webcast . . . . . 4	Beacon Comes to NY Metro! . . . . . 5

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## Interview with Philip Lawton, PhD, CFA, CIPM

This month, Beacon had the privilege of interviewing Philip Lawton, head of the CFA Institute’s Certificate in Investment Performance Measurement (CIPM) program. As head of the program, Mr. Lawton’s responsibilities include developing the curriculum, setting examination standards, and overseeing the examination and grading processes to name a few. Prior to joining with the CFA Institute, Mr. Lawton’s professional experience included serving as vice-president at State Street Analytics where he supported investment consulting firms, and Citibank where he headed U.S. Performance Measurement in Worldwide Securities Services. Mr. Lawton earned the CFA designation in 1983, and in 2004 he joined the CFA Institute to establish the CIPM Program.

The CIPM is a specialty credentialing program that focuses on the performance evaluation and presentation competency of investment professionals. The program itself has three main topic areas: Ethical and Professional Standards; Performance Measurement, Attribution, and Appraisal; and the Global Investment Performance Standards (GIPS). The curriculum is an

online, self-study information base which allows professionals to tailor their study to their respective work schedule and learning style. In order to earn the CIPM designation, professionals must pass both the Principle and Expert levels of the program, join the CIPM Association, and satisfy the required work experience requirement.

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**We had the opportunity to ask Mr. Lawton a wide-range of questions regarding the CIPM and the future of the program. Below is an excerpt of our conversation:**

**Is there a formal mission statement for the CIPM Association? If so, what is it?**

The mission of the CIPM Association is to promote professional and ethical excellence in the practice of investment performance evaluation and presentation.

**Given all of the recent fraudulent activity in the marketplace, and the weight given to both ethics and the GIPS, has interest in the exam grown as a risk control?**

The number of fraud cases is, frankly, staggering. The Washington Post reported last week that the Federal Bureau of Investigation has almost 500 open Ponzi investigations. However, the fraudulent activity itself isn't new; it has merely come to light in recent months. It's too soon to tell with any confidence whether the uptick in CIPM enrollments we're seeing these days reflects greater awareness that performance analysis may help investors spot signs of misrepresentation before the damage is done. I'd like to think so, though, and I'll be on the road this summer to spread the word.



**What has been the growth rate/general growth of the program since it started?**

The CIPM program had a total of 915 candidates in 2006 and 1,326 in 2008, reflecting a 20% compound annual growth rate. Enrollments fell off for the March–April 2009 exam window, a troubled period in the investment industry, but appear to be rebounding smartly now. Enrollment for the September–October exams remains open until 31 July.

**What trends have you seen in terms of global interest in the CIPM? Is there a particular region where exam registration has grown more than others?**

Although enrollments remain higher in the U.S. and Canada than elsewhere in the world, we perceive some interesting trends. At present, approximately 72% of CIPM certificants—investment performance professionals who have passed both exams and met other requirements—reside in North America; 17% in Europe, the Middle East, and Africa; and 10% in Pacific Asia. In the March–April 2009 exam window, however, only 66% of candidates were North American, while enrollments rose to 19% in the EMEA region and 15% in Pacific Asia. Candidates sat for the Principles exam in 28 countries.

**Where do you see the program in 5 years? 20 years? What is the direction of the program? Do you believe it will have the same traction as the CFA program?**

Given what we've all experienced in the last nine or ten months, it's difficult to foresee the shape of the industry in 5 years, let alone 20. Nonetheless, we're seeing anecdotal evidence that performance measurement and risk analysis are becoming more closely aligned, not just conceptually but also in the way investment firms are managed. It's reasonable to assume that ex post risk analysis will figure somewhat more prominently in the CIPM curriculum in the future.

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**Who does it benefit the most, employees working in the performance measurement industry or firms' compliance officers?**

Performance measurement (and by that I mean both the analysis and the presentation of results) is centrally important to managing an investment firm, from asset gathering through the diagnostic evaluation of strategies and decision-making processes. Indeed, in addition to performance analysts, the CIPM program has proven attractive to client and consultant relationship managers, portfolio accountants, and IT professionals, not to mention investment consultants and GIPS verifiers. Certainly compliance officers stand to gain from having highly qualified, ethically grounded performance analysts in their firm, but they are not the only beneficiaries of the CIPM program. The firm as a whole benefits, and so, of course, do the investment performance professionals who earn the credential.

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**In short, the curriculum offers investment professionals a chance to hone their skills in this specialized discipline, and the exams allow them to demonstrate their mastery of the body of knowledge to current and prospective employers alike.**

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**What do you feel is the most important value-add with the CIPM certification?**

I've already spoken of the ways in which the CIPM program serves the interests of employers; let me try to answer from the perspective of the candidates and certificants from whom I hear every day. There is considerable evidence that the CIPM program has already earned a fine reputation in the investment industry. We keep an eye on the market for investment performance professionals, and many of the employment ads that come to our attention specifi-

cally identify the CIPM designation as a desirable qualification. In short, the curriculum offers investment professionals a chance to hone their skills in this specialized discipline, and the exams allow them to demonstrate their mastery of the body of knowledge to current and prospective employers alike. I encourage you and your readers to check out the [certificants' stories](#) on the CIPM website.

**Do the test breakdowns/allocations mirror the breakdown of an average CIPM certificant's responsibilities?**

The exams are based upon the curriculum, and the curriculum is shaped by job analyses that we conduct every other year. (The 2008 job analysis, in which more than 1,500 practitioners took part, is summarized in a fascinating [report](#) available in the CIPM section of the CFA Institute website.) The guideline topic area weights for the CIPM examinations reflect the recommendations of the CIPM Association Advisory Council after they have reviewed the job analysis in depth. For example—as verifiers, you may not be thrilled to hear this—in response to our findings last year, the weight given the GIPS standards was reduced in the 2009 curriculum while the weights were increased for professional ethics and, especially, performance measurement, attribution, and appraisal.

**Do you ever omit questions after the test window if a certain % missed the question or if it was deemed to have been asked in an inaccurate manner?**

After the testing window closes, we subject the exams to intensive statistical analysis. We do not omit questions on the basis of the number of candidates who miss them; however, like other well-established credentialing programs, we engage psychometricians to conduct standard-setting, and that process takes the difficulty of the exams into account. Once or twice we have eliminated a flawed question from consideration.

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**Do you see the CIPM becoming a requirement for Verification Associates in the future?**

Not at all. However, I anticipate that more and more clients of verification firms—at least those clients who take verification seriously—will expect their verifiers to have earned the CIPM credential.

We would like to thank Mr. Lawton for his insights. Beacon places a strong emphasis on the CIPM program and we feel that it increases our professional

expertise as well as enhances the value of our services. We are also very excited about the recent CIPM test results that came out in the past month as they bring the firm's total verification professionals that have passed both levels of the program to 62%. We believe successful completion of the program demonstrates mastery of the performance concepts, analytical techniques, and presentation standards that are vitally important in conducting a verification. ◀

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## Upcoming Webcast

### **GIPS® Compliance for Hedge Funds—July 16, 2009**

Although GIPS® guidance for hedge funds has only recently gained momentum, the need for more in-depth direction has been apparent for several years. We will review all past and current guidance as well as cover complex issues including incentive fees, share classes, side-pockets and other common areas of interest. Most importantly, we will share with you current practice in the industry as well as suggest and provide guidance for applying the GIPS® to a hedge fund structure in a meaningful and beneficial manner.

**Justin Guthrie, CFA, CPA, Director, Senior Verification Manager**

**Coley McKinstry, CIPM, Senior Verification Associate**

**Valerie Lamanna, CPA, Member, USIPC; Member, GIPS® Alternative Investment Strategies Working Group; Former Member, GIPS® Verification/Practitioner Subcommittee**

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## Conferences

ACA Beacon will be exhibiting at the following conferences in the coming months.

We look forward to seeing you there!

### **Schwab Impact 2009**

September 13th - 16th

The San Diego Conference Center

San Diego, CA

### **GIPS Standards Annual Conference**

22 - 23 September 2009

Hyatt Regency Boston

Boston, Massachusetts

*\*\*This one sold out early last year, so make sure to register early if you are interested*



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## Congratulations!

Hearty congratulations to the following for passing the Expert Level exam of the CIPM (Certificate in Investment Performance Measurement) program!!

Mike Sonnenburg

Bobby Ankar

Shamya Sermons

Douglas Finlay

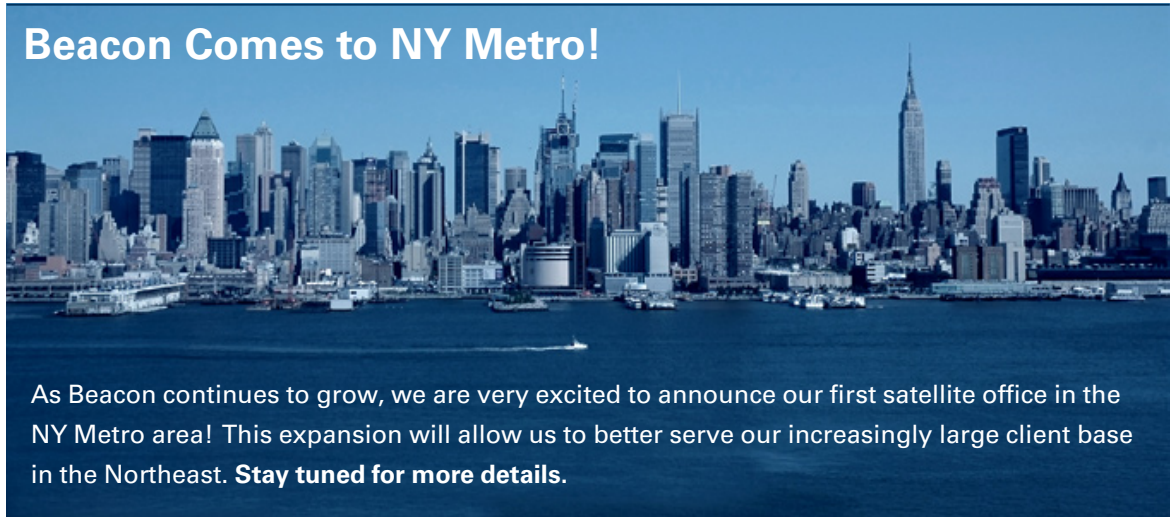
James Hendricksen

We also congratulate the following for passing the Principles Level of the exam:

Brooks Blair

Austin Jabaley

## Beacon Comes to NY Metro!



As Beacon continues to grow, we are very excited to announce our first satellite office in the NY Metro area! This expansion will allow us to better serve our increasingly large client base in the Northeast. **Stay tuned for more details.**