



ACA  
COMPLIANCE GROUP  
BEACON VERIFICATION SERVICES

MAY 2009 UPDATE

# ATTEST BVS

It is difficult to believe that the first quarter of 2009 is now complete. This month's feature article will focus on Performance Exams and how they benefit asset management firms. In addition, we are happy to introduce you to a new member of our Beacon family as well as give you an update on the upcoming conferences in which we will participate this Spring.

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## An Introduction to Performance Examinations

A frequent question that prospective clients often ask us concerns the difference between a Firm-Wide verification and a performance exam. Because of the increased interest in this question, this month's article is a good opportunity to revisit the salient features of a Performance Exam.

Before exploring the specifics of a performance examination, it is critical to first understand exactly what a Firm-Wide verification is. A Firm-Wide verification tests two specific things: 1.) that a firm has complied with all the composite construction requirements of the GIPS on a Firm-Wide basis, and 2.) that a firm's performance measurement processes and procedures are designed to calculate and present performance results in compliance with the GIPS on a Firm-Wide basis. A Firm-Wide Verification is a review of the entire firm and says nothing about a particular composite.

A Performance Exam fills this need. During this review, the verifier is testing: 1.) that the firm has constructed and calculated the composite in

compliance with the GIPS, and 2.) whether or not the firm presents the composite in compliance with the GIPS. On a practical level, this means that each composite receiving a Performance Examination undergoes a much more rigorous and thorough testing. A firm may not receive a Performance Exam without first receiving a Firm-Wide Verification. Typically, the two procedures are performed concurrently to gain some economies of scale during the verification.

### How Would My Firm Benefit from Performance Exams?

Many of our firms request that we conduct Performance Exams on their marketed composites. This extra testing provides an added (CONTINUED)



sense of comfort that the performance of the composite in question is being calculated and presented in accordance with the GIPS. This additional assurance that composite performance is in compliance gives the firm an increased level of confidence in the presented numbers.

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Furthermore, this second level of testing can be used as an effective marketing tool when promoting the composite. Because the composite has undergone a more rigorous testing, the marketplace is more confident in the integrity of its performance. For example, when choosing between two Large Cap Growth products with identical performance, the composite that receives a Performance Exam has a distinct competitive advantage.

These are just a few reasons why a firm might want to consider this extra level of testing for its marketed composites. We will now outline the procedures that a composite undergoes when it receives a Performance Exam.

#### **Performance Exam Procedures**

The procedures for the Performance Exams are outlined in the Performance Exam Guidance Statement. These procedures include pre-Performance Exam checks that must be satisfied, cash flow reconciliation testing, performance calculation replications, as well as presentation reviews. These ensure that the firm has constructed and calculated the composite in compliance with the GIPS, and that the firm presents the composite in compliance with the GIPS.

As one can easily see, a Performance Exam requires a much deeper and concentrated effort than the Firm-Wide Verification. This rigorous confirmation allows a firm a greater sense of comfort that it is presenting the most accurate composite performance and adhering to the best practices set forth by the GIPS. ◀

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## **Upcoming Changes to the GIPS**

We have previously discussed the imminent changes that take effect 1/1/10. In addition, the GIPS undergo a thorough revision every five years with 1/1/11 being the effective date of this revision. A review period for public comment regarding these proposed changes will last through 7/1/09. The proposed revisions include:

1. **Compliance Statement:** As part of the GIPS compliance statement, investment firms will be required to disclose whether their firm has been verified.
2. **Non-fee-paying Portfolios:** Investment firms will be required to include all discretionary non-fee paying portfolios in at least one composite.

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- 3 **Risk Disclosures:** As part of the composite description, firms will be required to disclose sufficient information to allow a prospective client to understand the relevant risks of the composite strategy.
4. **Verification:** The scope and purpose of verification, as well as the required verification procedures that must be followed by verifiers have been clarified in Section III in order to increase the understanding and consistency of verification.
5. **Fair Value:** The proposal requires firms to report portfolio performance based on fair value accounting.
6. **Standard Deviation:** Investment firms will be required to disclose the three-year annualized ex-post standard deviation of the composite and benchmark.
7. **Proprietary Portfolios:** Firms will be required to disclose the percentage of composites composed of proprietary assets (e.g., “seed” capital or “house” money).
8. **Real Estate External Valuation:** For periods beginning January 1, 2012 or after, real estate investments must be valued by an independent external valuer or appraiser at least once every 12 months.

We encourage everyone to comment on the proposed changes. For more information, go to [www.gipsstandards.org](http://www.gipsstandards.org). We would be happy to discuss if you have further questions concerning any of these proposed changes. ◀




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## Employee Spotlight

**Rachel Stoker**  
Data Analyst

Rachel Stoker is a data analyst serving our client base with the initial and on-going verification of GIPS compliance. Rachel joined Beacon after a twelve year career in the consumer banking field where her responsibilities included servicing a wide range of financial products and meeting client financial needs. During Rachel’s banking career, she served in various roles in retail banking specializing in investments. Rachel brings with her a breadth of knowledge on wealth management.

Rachel looks forward to taking the CIPM exam in the coming months. ◀



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## Upcoming Webcast

### **Tips for Marketing to Institutions/Consultants and Advertising from a GIPS & SEC Perspective**

May 5, 2009 at 1pm EST

Jeff Tarumianz, CFA, CIPM, Managing Director, Senior Verification Manager

Ted Eichenlaub, Partner, ACA Compliance Group

Vince Bakshani, Director, eVestment Alliance

The webcast will focus on the marketing aspects of GIPS® compliance and how the Standards should be applied to one-on-one presentations and advertising situations. ACA is teaming up with Vince Bakshani at eVestment Alliance, the leading web-based provider of comprehensive investment information and analytic technology, to ensure that we help you best market your firm to consultants. Because advertising is always one of the SEC's hot issues, we will also address advertising and disclosure best practices from an SEC standpoint. ◀

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## Beacon Comes to NY Metro!

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