



ACA
COMPLIANCE GROUP
BEACON VERIFICATION SERVICES

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ATTEST **BVS**

Welcome to the April edition of our newsletter. In this month's edition, we share with you some best practices that we have observed amongst various firms. These practices all help a firm maintain an accurate and consistent claim of compliance with the GIPS. As always, please feel free to let us know if you have any questions or thoughts for future newsletters.

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Best Practices for GIPS Compliance

We are often asked by clients and prospects how they can better streamline their processes and procedures related to performance reporting and GIPS compliance. Unfortunately, there is not a one size fits all answer for these types of questions. However, we wanted to share with you what we believe to be the stronger points of firms that accurately claim GIPS compliance.

Common attributes that we have found consistent with an accurate claim of compliance include a sound policies and procedures document, intra-departmental cohesiveness, and an appropriate compliance point person.

Policies and Procedures

Thoroughly documented policies and procedures are a must. Although the GIPS mandate that policies and procedures related to GIPS compliance be documented, most firms that have not been verified have noticeable shortfalls in their written policies and procedures. We strongly encourage firms to

treat this document as a work in progress because new policies must be added as the GIPS evolve.

Firms that use their Policies and Procedures document as a roadmap to attaining and maintaining compliance, as opposed to a one-time effort to satisfy the requirements typically have a far stronger compliance program in place. We recommend that firms detail the procedures they use that are directly related to their software (e.g. how accounts are added to composites, how performance is updated, etc.). Writing about the sequence of points and clicks might seem trivial, but we believe this is crucial, especially in the event that the person in charge of compliance leaves the firm or if regulators ask for an explanation of procedures.

Because there are so many moving parts involved in claiming compliance with the GIPS, the Policies and Procedures document should also be a great reference tool. For example, with all of the responsibilities that an operations or performance professional might have, it might be a challenge to re- (CONTINUED)



member every last policy (e.g. what is our “grace period” policy when removing accounts due to significant cash flows).

Unfortunately, the GIPS do not have an exhaustive list of policies and procedures that must be documented. However, one can find a good start in the “Verification – Section III” portion of the GIPS (let us know if you need a copy). On a similar note, some firms have found it useful to structure their Policies and Procedures manual in the same format as the GIPS themselves. They will address every standard, i.e. 1.A.1, 1.A.2, etc., and the policy and/or procedures they utilize to ensure successfully meeting the corresponding requirement/standard.

There are myriad times during an initial verification when we find marketing pieces claiming compliance with the Standards that blatantly omit many of the advertising requirements.

Cohesiveness of Departments

A second characteristic of a firm with an accurate claim of compliance is the cohesiveness of the different departments and their knowledge of the firm’s claim of compliance and its related responsibilities. Given the current industry push for GIPS compliance, there can be great demand for a quick claim of compliance. One example is an RFP that has to get filled with an emphasis on GIPS compliance. At this point, the firm will scramble to be able to answer that question affirmatively. This does not always predicate a lack of compliance (the firm could have many of the requirements in place and only has to meet a few others). However, many times the firm will run out of this immense desire to maintain a compliant structure shortly after the RFP is filled out, and GIPS compliance is put on the backburner.

The issue that arises is that the compliance department is handed the task and there is no firm-wide understanding of what it means to be GIPS compliant. As mentioned earlier, the Standards are ever evolving and the firm needs to stay on top of any new guidance. More than this though, the Standards are broader than simply requiring a correct Policies and Procedures document and calculation methodologies. Being compliant means holding the firm out as such and this process should involve, among others, the compliance, the marketing, the investment, and the performance measurement department. There are myriad times during an initial verification when we find marketing pieces claiming compliance with the



Standards that blatantly omit many of the advertising requirements. The claim of compliance entails the fulfillment of ALL requirements - and these include advertising guidelines. This does not mean that every single person in every department should go home tonight with a copy of the Standards (although we’ve been assured that this is excellent bed-side reading!). It does mean however, that all relevant departments should know what it means to be GIPS compliant, and the associated responsibilities. At the very least, every employee should know when something might pertain to the claim of compliance and the appropriate facilitator with whom to consult. (CONTINUED)



GIPS Compliance Point Person

The final point is the somewhat obvious one of having the appropriate person or group in charge of the project. This goes back to the initial argument made about policies and procedures but takes it a step further. Our day-to-day contacts for GIPS compliance hold differing positions ranging from the operations person, the compliance person, the performance analyst, the risk officer, the marketing person, and so on. However, for successful firms, we find this tends to be someone with knowledge about the different aspects of those positions. It is very difficult for a person without a basic grasp on performance measurement to enact and follow policies dealing with portfolio revaluation or significant cash flows. In addition, it is not helpful if the performance per-

son has no explicit contact with the marketing department and the firm does not disclose material occurrences in the compliant presentations. Another obvious point to highlight is that the designated compliance person or group should be able to handle the new responsibility and have the time to focus on the Standards.

The successes and the failures of a proper compliance system depend greatly on the firm's dedication to the project. Although compliance - especially on an ongoing basis - should not be time consuming and arduous, it is imperative that firms have the proper infrastructure in place to ensure this. In most cases, this will not be a huge undertaking and the proper procedures can be set up relatively easily.

Save the Date!

The GIPS Standards Annual Conference will be held on September 25th - 26th at the Westin Copley Place in Boston, MA.

Please note that this event was sold out last year. As always, Beacon will be sending multiple representatives, and we look forward to seeing you there!

ACA Compliance Group Upcoming CCO Roundtables

Next month ACA will be hosting a complimentary compliance roundtable in San Francisco and New York City. These events will be excellent opportunities to learn and discuss new compliance topics. We encourage not only compliance officers, but also members of your marketing, investment, and operations departments to join us.

ACA's San Francisco Roundtable May 7, 2008
Le Méridien San Francisco / San Francisco, CA

ACA's New York City Roundtable May 20, 2008
GIPS Compliance for Hedge Funds
The Westin New York at Times Square / NYC, NY

For further information, or if you would like to register for either event, please e-mail **Elizabeth Drabot** at edrabort@acacompliancegroup.com. We hope to see you there!