

AIMR-PPS® AND GIPS® VERIFICATION AND COMPLIANCE



ASHLAND PARTNERS  
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## Changes in the SEC's Examination Program

Forty percent of the examination staff's time is being spent on risk-targeted sweep exams of 10 to 50 advisers, according to Gene Gohlke, Associate Director for Investment Company and Investment Adviser Compliance in the SEC's Office of Compliance Inspections and Examinations ("OCIE"), who recently spoke about changes in the examination program.

Each sweep exam focuses on a particular area of practice, such as performance, market timing, of something that appears in the press. These exams are national in scope and generally spearheaded by one district or regional office. Twenty of these sweep exams were conducted in 2004. Initially, some large advisers with an assortment of products and strategies may have received multiple request lists, but coordination of these exams has been assumed by OCIE, who will try to limit the number of exams of an adviser. However, Gohlke pointed out that in some cases, few advisers may participate in the activity being examined and some overlap may still occur.

The selection of firms for routine exams is based on risk rating. The firms with a higher risk rating will still be examined on a cyclical basis, every two to three years. The firms with the lower risk rating will be examined on a random basis at a rate of 500-700 per year. Since the selection for lower risk firms is random, an adviser might not be examined for 10 years, or it could be examined two years in a row.

Cause exams doubled in number from 2002 to 2004. Wall-to-wall exams (reviewing every facet of the adviser's operations) have essentially been phased out, although some routine exams may still include the entire firm's activities.

Since the SEC has almost 9,000 registered advisers, 900 mutual fund groups, and expects close to 2,000 hedge fund advisers to register in 2006, they are concerned about keeping up with the industry.



### Ashland Checklist

**SEC plans to take new approach to the traditional exam process:**

1. Monitoring teams
2. Surveillance task force
3. No surprise policy
4. Evolving to keep up with the industry

Two new concepts are in the planning stages: monitoring teams and a surveillance task force. Monitoring teams will consist of two to three staff examiners who will be assigned to an advisory group, probably a mutual fund complex or a multiple adviser firm. This monitoring team will be responsible for knowing all about their assigned group. They will not be on-site continuously, but will visit the firm (or firms) frequently, perhaps on a monthly basis. The goal is a "no surprise policy" with the SEC knowing about a problem before it appears in the press. The adviser surveillance task force will try to oversee advisers by receiving a stream of information on a continuous or regular basis. This is very much in the planning stages, as the SEC works to determine what information would be useful and how it could be received.

The compliance program that went into effect on October 5, 2004, required each adviser to perform a risk analysis to identify firm risks. The firm's compliance program should be targeted at those identified risks. Gohlke indicated that examiners will be asking for the firm's "risk inventory" and expect the CCO to explain how the firm's program is addressing those identified risks. A statement that the firm has no risks would not be acceptable.



Ashland Compliance Group was created to specifically address the new requirements of the CCO. Our service is tailored to the requirements of the new rule and the needs of **your** firm, concentrating on those areas where you may need the most assistance. The goal is not to make you fit **our** Program, rather for us to tailor our service around **your** firm.

For additional information regarding ACG, please contact Tim Simons at 267.254.1506 or email [info@ashlandcompliance.com](mailto:info@ashlandcompliance.com).

*Experts In The Field.*

## What's in a name?

It is still the intention of the IPC to transition into one global standard. However, we have not yet heard the final position for the movement from AIMR-PPS® to GIPS® by January 2006. While the revised GIPS do not have a major impact on firms already claiming compliance to AIMR-PPS, there are some differences in the GIPS and AIMR-PPS Advertising Guidelines that have not yet been addressed.

For instance, currently firms claiming compliance to the AIMR-PPS on their website are required to include a link to the firm's full list of composites whereas GIPS does not address this. There are also some differences in requirements. AIMR-PPS requires the disclosure of whether non-fee paying accounts are included in the composite, as well as one, five and ten year period returns. The GIPS standards do not mention non-fee paying accounts and require in addition to a period-to-date return, that firms must either show one, three and five-year, or five years of annual returns.

AIMR-PPS also explicitly states that firms with composites that have been examined under the performance examination procedures may not in any way refer to the term "Performance Examination" in any advertisement that claims compliance. The GIPS standards do not address this point. Clarification on this transition is eagerly anticipated. Hopefully, this will be addressed in the Subcommittee's deadline of revising all guidance statements by September 2005.

## Other News

The Interpretations Subcommittee has divided into several groups in order to tackle the task of updating all existing guidance statements to bring them into accordance with the newest version of GIPS. In addition, they are finalizing Q&A and responding to the comments that were issued on the guidance statements that recently closed for comment (i.e. verifier independence, error correction, etc.).

The goal of completing the revisions for all existing guidance statements is September 2005. For more information of the IPC meetings please visit [www.cfainstitute.org](http://www.cfainstitute.org).

## GIPS Certification Program

The CFA Institute has recently announced the Certificate in Global Investment Performance Standards (CGIPS). An advisory council is being formed to develop the curriculum for this examination. It is intended for performance measurement practitioners and will cover such areas as professional ethics, the GIPS standards, performance measurement, analysis and evaluation. This will be a global initiative and the IPC is hoping it will be computer generated. There will be two levels to this certification: Principles and Expert. The first exam is expected to be offered in Spring-2006.

## The Ashland Corner

### Ashland Profiles

**Talia Ortega** is a Verifier based in our New Jersey office. Prior to joining Ashland Partners, Talia was working as a Loan Processor at a Brokerage Firm located in Florida.

Talia graduated from Columbia University with a Bachelor of Arts degree in Economics and Political Science. In her spare time, she enjoys reading, visiting museums, spending time with family & friends, and traveling.

**Oleg Simanovsky**, Verifier, is also based in our New Jersey office. Prior to joining Ashland Partners, Oleg worked at various Wall Street firms as a Proprietary Equity Trader and a Market Maker.

Oleg graduated from the University of Delaware with a Bachelor of Science in Business Administration/Marketing and a minor in Finance. He lives in Princeton, NJ. In his spare time, he enjoys spending time with his family, golf, skiing, and traveling.



**It's not too late** to sign up for the Chicago Ashland Client Conference. The date is June 20, 2005, just \$50 for clients and \$75 for non-clients.

Visit our website [www.ashlandpartners.com](http://www.ashlandpartners.com) for registration and schedule information. An additional conference will be held in New York on September 12th, 2005.

**Thank you to all of those who attended the ACC in LA.** Here are just a couple comments from attendees:

*"I just wanted to let you know what a nice time I had yesterday at the conference. Team Ashland did a great job! It would be well worth it to have more of these conferences; I hope Ashland agrees it was a great success and will start planning regular updates."* Linda Schuman—West Coast Asset Management, Inc.

*"It was a great opportunity to hear about issues and solutions from other managers, and the presentations were useful. I would attend again."* Pete Knapp—Navellier & Associates