

ADOPTING RELEASE: GUIDANCE STATEMENT ON PERFORMANCE EXAMINATIONS

Below is a summary of the comments received on the proposed *Guidance Statement on Performance Examination* during the public comment period from November 2005 to January 2006. The firm or individual making each comment is indicated using the following abbreviations:

- Ash – Ashland Partners and Company
- GAMSC – German Asset Management Standards Committee (German Country Sponsor)
- BVS- Beacon Verification Services LLC
- PPS – AIMR-PPS Implementation Committee (US and Canadian Country Sponsor)
- PwC – PricewaterhouseCoopers
- SAAJ- The Security Analysts Association of Japan (Japanese Country Sponsor)
- VBA- VBA-IPM Committee (Dutch Country Sponsor)

Note: In places throughout the document, Performance Examination may be abbreviated as PE.

	<i>Do you agree with the scope and purpose of the Guidance Statement?</i>
GAMSC	<ul style="list-style-type: none"> • All verification and auditing procedures must be done in accordance with the GIPS and the GIPS Verification Report(s)...additional auditing procedures – like Performance Examination – pre-requires GIPS Verification. • Not useful from a non-US point of view. • DVFA-PPS (Germany’s Country Version of the GIPS standards) verification requirements were more comprehensive at the account-level • We propose to consider Performance Examination as a preliminary tool. • We propose that once GIPS verification will be mandatory (as proposed in 2010), Performance Examinations should be abandoned, and the role of performance auditing within GIPS verification should be enforced instead. • GIPS verification should include sufficient performance auditing procedures to ensure consistency of performance.
SAAJ	<ul style="list-style-type: none"> • There is no demand for performance examinations in the investment industry in Japan. • The priority should be to review and improve existing verification requirements, after which any additional procedures for “examination” should be optional • A full survey should be conducted through Country Sponsors to determine whether demand for performance examinations really exists. <p><i>RESPONSE: Until the next comprehensive review and revision of the Verification provisions is considered, guidance is needed by the global industry for the process of conducting a Performance Examination. The process to review and improve the current verification provisions of the GIPS standards is planned as part of the 5-year process to review all the provisions of the Standards. The next five-year review period is anticipated to start by mid-2007.</i></p>

GAMSC	<p><i>Performance Examinations are discussed but not defined within the current version of the GIPS standards. Because the GIPS standards specifically allow Performance Examinations and offer investment management firms the choice of making use of the guidance or not, consistency in procedures will benefit those countries/regions where the end users (plan sponsors, consultants, individual investors, etc.) require this level of review.</i></p> <ul style="list-style-type: none"> • Procedures outlined in the proposed Guidance Statement are already covered by the basic Verification Procedures -- 1) a) b) and c), 6) and 7), <p><i>RESPONSE: The Performance Examination procedures do not necessarily overlap with the Verification procedures. For example, there is no guarantee that the composite being examined had any of its member portfolios selected as part of the sample for the Verification exercise. In the specific examination of a composite, the universe of possible sample portfolios is only those portfolios within the composite being examined.</i></p>
GAMSC	<ul style="list-style-type: none"> • May cause confusion similar to Level I and Level II verifications (under the former AIMR-PPS standards). • This additional performance examination may be potentially perceived as a competitive advantage (disadvantage for those who choose not to have a PE). • Could lead to a loss of confidence in GIPS verifications only
SAAJ	<ul style="list-style-type: none"> • Providing a guidance statement would create unnecessary demand for performance examinations on specific composites • Might lead to the overall inefficiency of the GIPS additional redundant verification structure by having process. <p><i>RESPONSE: In an effort to mitigate any potential confusion similar to that from the “Level I and Level II” issue under the former AIMR-PPS standards, the Verification provisions do not permit a Performance Examination of a composite without (firmwide) verification. Historically, Level II verification could have been executed with only “abbreviated Level I” verification.</i></p> <p><i>The Verification Subcommittee of the IPC felt that providing guidance would not create demand for Performance Examinations where it does not already exist; it simply ensures the consistency of the services being provided.</i></p>
SAAJ	<ul style="list-style-type: none"> • We are unclear about the survey of Country Sponsors as mentioned in the Executive Summary. <p><i>RESPONSE: During the initial stages of revising the 2005 version of the GIPS standards, the Verification Subcommittee of the Investment Performance Council (IPC) surveyed Country Sponsors on verification in order to assess their sentiment, particularly on the issue of mandatory verification. The survey did not specifically ask about the demand for performance examinations; however, several responses discussed the local presence of performance examinations, which led the Verification Subcommittee to recommend standardizing the procedures used to conduct a performance examination.</i></p>

SAAJ	<ul style="list-style-type: none"> The verifier who conducts “verification” for certain period(s) for an investment firm should provide the firm with optional service of “examination” on specific composites for the same period(s). If the verifier for “verification” and that for “examination” are identical for the same period(s), can be properly guided by already-existing two guidance statements on verification and verifier independence. <p><i>RESPONSE: It is possible that a firm would choose to have the PE performed concurrently with a verification by the same firm; it is also possible that a firm would choose to have a Performance Examination performed at a later date or by a different verification firm. The PE guidance accommodates all scenarios.</i></p>
<i>Do you agree with the processes established in the Guidance Statement?</i>	
Ash	<ul style="list-style-type: none"> More useful for a verifier to be satisfied that the “portfolio trading <i>policies</i> and procedures are reasonable” rather than the “portfolio trade processing <i>processes</i> and procedures,” since in the U.S., written trading “policies and procedures” rather than “processes and procedures” are required by applicable law. Consistent use of the clearest terminology throughout the GIPS standards and guidance statements should be an ongoing goal and not a limitation to improvements. <p><i>RESPONSE: Policies are reviewed as part of the verification which must be performed prior to or at the same time as the PE. See Required Verification Procedure B.1.e.iv.</i></p>
<i>Are there other elements involved in a Performance Examination that are not included?</i>	
VBA	<ul style="list-style-type: none"> We would expect that the performance examination procedures would also include one regarding performance measurement calculation and would also provide guidance on the examination of benchmark returns. <p><i>RESPONSE: Performance examination procedure # 6 addresses performance measurement calculations; benchmarks would be included in procedure #7.</i></p>
<i>Do you agree with the Applications?</i>	
VBA	<ul style="list-style-type: none"> This would be a good place to highlight the distinction between a firm-wide verification and a performance examination. <p><i>RESPONSE: Added Application 3.</i></p>
<i>Do you agree with the proposed Effective Date?</i>	
BVS VBA Ash	<ul style="list-style-type: none"> Yes
PPS	<ul style="list-style-type: none"> No, needs to be moved to later in 2006. Guidance Statement should take effect as soon as the approval process is complete
PwC	<ul style="list-style-type: none"> Consideration should be given to pushing back the effective date until later in 2006.

	<i>RESPONSE: Changed effective date to 31 December 2006 to reflect the timeline for approval.</i>
SAAJ	<ul style="list-style-type: none"> We oppose providing a Guidance Statement on Performance Examinations. Accordingly, the proposed effective date is out of the question. <p><i>RESPONSE: Because the GIPS standards already introduce the idea of a Performance Examination, consistency in procedures will benefit those countries/regions where the end users (plan sponsors, consultants, individual investors, etc.) require this level of review.</i></p>
	SECTIONS OF THE DOCUMENT
	<i>Introduction</i>
PPS	<ul style="list-style-type: none"> Clarify and consistently apply whether or not a Performance Examination is “separate from” or “in addition to” a verification Language is too strong. Certain parts of the investment industry “require,” not “demand” composite-specific examinations. The remaining part of the sentence should be modified: “to provide them with additional and specific assurance...” <p><i>RESPONSE: Changed the language to reflect that a performance examination may be performed concurrently with or upon completion of verification. Also changed the Guidance Statement to add suggested language regarding additional and specific assurance.</i></p>
SAAJ	<ul style="list-style-type: none"> Relationship between “verification” and “performance examination” should be clearly stated: i.e. “performance examination” is only an option which may be added to “verification” and is neither recommended nor required. <p><i>RESPONSE: Reworded introduction to outline differences between Verification and PE; specifically stated PE neither recommended nor required; also added Application 3.</i></p>
	<i>Scope and Purpose of Performance Examination</i>
BVS	<ul style="list-style-type: none"> Second paragraph on page 4 (“3. If the Verification Report(s) does not cover...”) should be omitted. There are more negatives than positives to allowing this practice. If a firm wants a performance examination updated through 30 June, we believe it is reasonable that the firm also would have to have the firm-wide verification updated through this period as well.
SAAJ	<ul style="list-style-type: none"> Second paragraph on page 4, 2.A.3: it should not be allowed for a verifier to conduct “examination” on specific composites beyond the most recent period covered by a verification report and for an investment firm to state that the composite was examined for the period beyond verified one.
PPS	<ul style="list-style-type: none"> Should clarify the language “extending beyond twelve months of the end date of the most recent period covered by a verification report.” Should clarify that a Performance Examination may only be performed concurrently or after a Verification <p><i>RESPONSE: The guidance was adjusted to limit the distribution of the extended Performance</i></p>

	<p><i>Examination Report to only the client(s) making the request. In addition, the guidance was removed from the body of the Guidance Statement and discussed as an application (#5).</i></p>
SAAJ	<ul style="list-style-type: none"> The scope and purpose of “performance examination” should be defined carefully considering the relation to those of “verification”. As new sections and provisions are added to the revised GIPS Standards, the scope of “verification” should be reviewed and then the scope and purpose of “performance examination” should be defined. <p><i>RESPONSE: The process to review and improve the current verification provisions of the GIPS standards is planned as part of the five-year process to review all the provisions of the Standards. The next five-year review period is anticipated to start by mid-2007.</i></p>
SAAJ	<ul style="list-style-type: none"> The definition of terms of “verification”, “review”, and “examination” should be given in the Guidance Statement to correctly understand what each term represents. <p><i>RESPONSE: Performance Examination is a detailed review; as such, examination is used when referencing procedures performed as part of the performance examination, as distinguished from verification procedures.</i></p>
	<p><i>Required Performance Examination Procedures</i></p>
SAAJ	<ul style="list-style-type: none"> The section of “Pre-Performance Examination Procedures” is not necessary (verifier and PE provider should be the same) <p><i>RESPONSE: The idea that a Performance Examination and a Verification could be conducted by different verifiers is a concept that is carried forward from the Verification procedures. It is possible that a firm would choose to have the PE performed concurrently with a verification by the same firm; it is also possible that a firm would choose to have a performance examination performed at a later date or by a different verification firm. The proposed Guidance accommodates all scenarios. In addition, investment management firms should consider the impact of having different verifiers perform the verification and the performance examination(s).</i></p>
VBA	<ul style="list-style-type: none"> There is much room for interpretation to the verifier. The market participants do not get enough guidance and clarification from these procedures. If a firm already has a Verification Report or is about to get one, the firm fulfils the composite construction requirements and has processes and procedures to calculate and present performance results in compliance with the Standards. The verifier has probably already tested the processes and procedures during the verification procedure. The way the Performance Examination Procedures are outlined now in the Guidance Statement seems to require that the verifier tests all processes and procedures again. Instead we would expect that because of the fact that the firm has or is about to get a Verification Report, the guidance would be that the Performance Examination Procedures consist of taking samples on the specific composite. Regarding the extent of the performance exam procedures, the guidance is vague and subjective.

BVS	<ul style="list-style-type: none"> • Guidance on the acceptable level of testing is lacking. An example on this topic in the applications section might be helpful. • In section 5 on page 7, it would be helpful if tolerance levels related to the liquidity of different securities could be addressed. <ul style="list-style-type: none"> ○ If large cap equities are used, matching prices obviously is simple. ○ If a fixed income manager prices securities by requesting competitive bids at the end of the month, a verification firm may have a difficult time assessing whether the prices are accurate other than internal bid sheets maintained by the firm. ○ If foreign currency is used, all third-party sources most likely will have differing exchange rates giving rise to a situation similar to the one above. <p><i>RESPONSE: The language used for sample account selection for testing is similar to that used in the verification procedures. Each verification firm must determine how much testing will be performed and which specific procedures will be performed. Instead, a question and answer was added to provide additional considerations on the issue of sampling.</i></p> <p><i>In general, the verifier has tested the design of the processes and procedures during a Verification; however, the implementation of the processes and procedures on a specific composite is tested during a Performance Examination to determine that the composite was constructed, calculated, and presented in accordance with the Standards. See Performance Examination procedure 1.a. for discussion of account selection for Performance Examination. Application #4 was added to further discuss this issue.</i></p> <ul style="list-style-type: none"> • This guidance doesn't meet the intended goals and leaves too much room for interpretation to the verifier. Consequence of this could be that the asset management firms don't feel comfortable giving verifiers an assignment to conduct a Performance Examination.
VBA	<p><i>RESPONSE: As with Verification, the level to which the verifier tests the data for Performance Examination is at the discretion of the Verification firm. Consistent with the provisions of the GIPS standards, there is a great deal of flexibility granted when applying the requirements to each situation. The Standards serve as an ethical framework.</i></p>
PPS	<p>-Performance Examination Procedures (Performance Examination Procedures #2 through #7, pages 6-8).</p> <ul style="list-style-type: none"> • The words “The following” should be deleted from all uses under the heading “Performance Examination Procedures” because it implies that the bullet points are descriptions of the actual procedures, whereas the bullet points are actually the objectives of the procedures. The elimination of these two words will clarify the bulleted lists. <p><i>RESPONSE: Changed to reflect suggestions.</i></p>
BVS	<p>-Performance Examination Procedures Page 6 Section 1) Sample Account Selection “a)” through “c)” necessary?</p>

	<ul style="list-style-type: none"> it seems the minimum required firm-wide verification procedures in GIPS indicates that this should be done as part of the firm-wide verification. It also seems that composite construction checks should be executed on the entire population of accounts as opposed to a sample; therefore, “a)” through “c)” seem to contradict the firm-wide procedures in the GIPS (composite construction checks repeatedly refer to “all” accounts). This composite construction section also is placed before Sample Account Selection in the GIPS. <p><i>RESPONSE: The verification procedures, which attest to firm-wide adherence to the Standards, permit and describe the use of a selected sample of portfolios when checking for compliance with the Standards. The Performance Examination procedures similarly allow the use of a selected sample of portfolios; however, the verification procedures include all portfolios. Therefore, the population size in a verification is greater and includes portfolios from all composite but for a Performance Examination, the population is limited to the portfolios in the composite under review. As such, the sample of accounts selected for review for PE will be from the composite to be examined.</i></p>
Ash	<p>-Performance Examination Procedures Page 6, Section 3) Income and Expenses</p> <ul style="list-style-type: none"> Light treatment given to fee calculations under the umbrella of “expenses.” <p><i>RESPONSE: Added language addressing treatment of investment management fees.</i></p>
PPS	<p>-Performance Examination Procedure Page 7, Section 5) Portfolio Valuation</p> <ul style="list-style-type: none"> “End of period” should be deleted because it does not include instances of intra-period cash flow valuations <p><i>RESPONSE: The distinction must be made that valuations are made for performance measurement calculations. As such, valuations are made at the start of a performance measurement period as well as at the end on the performance measurement period, whether the period is daily, weekly or monthly. The guidance is changed to reflect that valuations are appropriate at the start and at the end of the performance measurement period.</i></p>
	Other
	Applications
BVS SAAJ	<ul style="list-style-type: none"> Application 1 (in guidance statement issued for public comment) should be removed. A firm must have to have a verification updated through the same period that the performance examination covers. <p><i>RESPONSE: The application was adjusted to limit the distribution of the extended Performance Examination Report to only the client(s) making the request. (Note: Now Application #5 in final guidance statement)</i></p>
Ash	<ul style="list-style-type: none"> The answer to Application #1 (in guidance statement issued for public comment) seems

	<p>to be leading toward “an unusual, infrequently-occurring situation and is not expected to be an ongoing practice.” To avoid this, the first sentence of the Application #1 answer should say “and the issuance of combined firm-wide verification and performance examination reports on a quarterly basis is an option.” Then to say, “However, there are circumstances....” is appropriate.</p> <p><i>RESPONSE: Language amended to reflect proposal.(Note: Now Application #5 in final guidance statement).</i></p>
SAAJ	<ul style="list-style-type: none"> • Application 2 (in guidance statement issued for public comment) is not necessary (verifier and PE provider should be the same) <p><i>RESPONSE: It is possible that a firm would choose to have the PE performed concurrently with a verification by the same firm; it is also possible that a firm would choose to have a performance examination performed at a later date or by another verification firm. The Guidance accommodates all scenarios. .(Note: Now Application #1 in final guidance statement).</i></p>
SAAJ	<ul style="list-style-type: none"> • Application 3 (in guidance statement issued for public comment): Given the situation where an issue of how a sample verification report should be has not yet been discussed on a global basis, it is inappropriate to indicate only a sample examination report here. The current “verification” provisions should first be reviewed including a sample verification report. <p><i>RESPONSE: GIPS Verification Provision III.4.a-b states specific language that must be included in a verification report. Additionally, the Guidance Statement for Verification provides suggested information for the verifier to include in its Verification Report. Application 3 simply provides more detailed guidance on suggested language that could be considered for inclusion in a Performance Examination Report. (Note: Now Application #2 in final guidance statement).</i></p>