

January 20, 2005

CFA Institute
CFA Centre for Financial Market Integrity
Reference: Guidance Statement on Performance Examinations
P.O. Box 3668
Charlottesville, VA 22903
USA

Proposed Guidance Statement on Performance Examination

Dear Sir or Madam:

We appreciate the opportunity to comment on the GIPS Proposed Guidance Statement on Performance Examinations. We agree that there is a need for and generally support the Guidance Statement.

This document is critically important to the U.S. investment management industry. Many of the largest public pension plans in the country will not consider hiring an investment management firm unless the firm is compliant with the Standards, verified, and has a composite examination report on the applicable mandate. As the types of firms providing verifications and performance examinations expands beyond the public accounting firms, the importance of this guidance statement will continue to increase. In a recent survey by the Spaulding Group, 57% of responding firms plan to have performance examinations on at least 25% of the firm's composites. (Note: The majority of respondents to this survey are based in the United States; others are located in Canada, Europe, South Africa, and the Far East/Australia.)

Some markets embrace performance examinations while others may not, but because the GIPS standards introduce the idea of a Performance Examination and offer investment management firms the choice, consistency in procedures will benefit those countries/regions where the end users (plan sponsors, consultants, individual investors, etc.) require this level of review.

Historically, Performance Examinations were included in the AIMR-PPS standards, but Performance Examinations are generally new to the global community. Furthermore, while the Standards permit Performance Examinations in the GIPS Verification section, verifiers need a more detailed outline to use when performing Performance Examination services in order to achieve consistency on a global basis.

The following are our specific comments on the Proposed Guidance Statement on Performance Examination:

1. The Guidance Statement needs to clarify and consistently apply whether or not a Performance Examination is "separate from" or "in addition to" a verification (Introduction, paragraph 1, page 3).

2. We believe that certain parts of the investment industry “require,” not “demand” composite-specific examinations. We believe the language is too strong. The remaining part of the sentence should be modified: “to provide them with additional and specific assurance...” (Introduction, paragraph 1, page 3).
3. The guidance should clarify the language “extending beyond twelve months of the end date of the most recent period covered by a verification report.” Specifically, it should clarify that a Performance Examination may only be performed concurrently or after a Verification. (Scope and Purpose, #2.A.3, page 4).
4. 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. (Performance Examination Procedures #2 through #7, pages 6-8).
5. “End of period” should be deleted because it does not include instances of intra-period cash flow valuations (Performance Examination Procedure #5, page 7).
6. The effective date of the Guidance Statement needs to be moved to later in the 2006 calendar year as the procedures and process of adoption is still underway. However, the Guidance Statement should take effect as soon as the approval process is completed – before the end of the 2006 calendar year.

The Committee thanks the IPC for the opportunity to contribute its comments. We welcome the opportunity to discuss our comments with you further.

Sincerely,

Karyn D. Vincent, CFA
Chair, AIMR-PPS Implementation Committee