

January 20, 2006

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

To Whom It May Concern:

Thank you for this opportunity to comment to your organization and for your efforts compiling a useful, well-written guidance statement.

Specific Comments Requested:

1. Yes, we agree with the scope and purpose of the Guidance Statement.
2. Yes, we agree with the *policies and procedures** established in the Guidance Statement.
3. The Guidance Statement is very thorough in its coverage of general issues in conducting a performance examination.
4. We agree with the applications, except for Application #1. The answer to Application #1 seems to be leading toward what the guidance statement in the Scope and Purposes paragraph 2.A.2 indicates is “an unusual, infrequently-occurring situation and is not expected to be an ongoing practice.” In order to avoid this, the first sentence of the Application #1 answer should go on to 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. If the answer doesn’t indicate that a combined full report on a quarterly basis is an option, we believe that the point made in 2.A.2 is undermined. Because the “certain parts of the investment industry” that demand composite-specific examinations commonly demand them through the most recent quarter, the “infrequently-occurring situation” in paragraph 2.A.3 would become more common than 2.A.2, concurrent reports, which is supposed to be the expected standard. For global firms, a quarterly firm-wide verification might be a bit mind-boggling and a good example of an appropriate 2.A.3 scenario. Of course, twenty years ago, daily custodial reconciliations would have been mind-boggling, too.
5. Yes, we agree with the proposed Effective Date.

The only additional comment is the very light treatment given to fee calculations under the umbrella of “expenses.” Fee expenses can’t always be tied to custodial statements, due to family accounts that pay several account fees through an account that may or may not be in the composite, the allocation of fees to a carve-out segment, fees paid outside the account, using accrued fees instead of actual, etc. To indicate verifiers should be satisfied that “expenses reflect supporting documentation such as custody statements” and even that “the methods used to record expenses are reasonable” might not be enough guidance to ensure the quality examination of net performance, specifically. Fee calculation errors due to the growing popularity of hybrid dual-contract bundled fee accounts might also be missed. At a minimum, we suggest adding a point under the expense testing that “net of fee performance is reasonable compared to gross performance and the firm’s stated fee schedule.”

*It would be much more useful for a verifier to be satisfied that the “portfolio trading *policies* and procedures are reasonable” rather than the “portfolio trade processing *processes* and procedures,” since in the U.S., written trading “policies and procedures” rather than “processes and procedures” are required by applicable law, and repeating less than ideal wording twice (in the Standards and the guidance statement) doesn’t make better policy. Consistent use of the clearest terminology throughout the GIPS standards and guidance statements should be an ongoing goal and not a limitation to improvements.

Respectfully submitted,

Ashland Partners & Co. LLP
Ashland Partners & Company, LLP

Experts in the Field