



January 9, 2006

Dear Investment Performance Council,

After reviewing the proposed guidance statement related to performance examinations, we have aggregated the following opinions:

1. We agree with the second bullet at the top of page 7 with regard to the review of the firm's calculation and use of accrued income.
2. Effective Date: We think the effective date is reasonable.
3. We believe the second paragraph on page 4 should be omitted ("3. If the Verification Report(s) does not cover..."). We believe there are more negatives than positives to allowing this practice. We assume the primary positive is that firms can receive a performance examination in a timelier manner when a prospect demands it. The majority of the confusion that exists today related to verification has roots in the fact that verification firms issued "Level II" reports without conducting "Level I"/firm-wide verifications first. We feel we have seen many firms that are not compliant because they did not fully understand that the claim of compliance is a firm-wide claim. CFA Institute has helped to begin curing this problem by mandating that a firm-wide verification be performed before a performance examination can be performed. We see the proposal above as a step backwards and a hindrance to the alignment of performance examinations and firm-wide verification. If a firm wants a performance examination updated through 6/30, for example, we believe it is reasonable that the firm also would have to have the firm-wide verification updated through this period as well. In accordance with our suggestion, the first Application would need to be removed from the guidance statement.
4. We question whether "a)" through "c)" on the top of page 6 are needed (Sample Account Selection). Our reading of the minimum required firm-wide verification procedures in the GIPS indicates that this should be done as part of the firm-wide verification. More importantly, our reading is 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.
5. With regard to the extent of the performance exam procedures, the guidance is vague and subjective. We realize that quantitative rules are not practical, but feel that guidance on the acceptable level of testing is lacking. An example on this topic in the applications section might be helpful. Along these lines, in section 5 on page 7, it would be helpful if tolerance levels related to the liquidity of different securities could be addressed. While we realize this may be too specific and we do not expect entirely objective rules, here are a few examples:
 - A. If large cap equities are used, matching prices obviously is simple.



B. 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. Relying on a third-party pricing service is limited other than making sure the prices are within a predetermined margin of error set by the verification firm itself.

C. 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.

As the investment management industry becomes increasingly global and more illiquid and complex instruments are used, it may be worthwhile contemplating these issues.

Thank you for allowing us to comment on this proposed guidance statement.

Sincerely,

Beacon Verification Services, LLC

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