

The Security Analysts Association of Japan

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March 22, 2005

Investment Performance Council
c/o CFA Institute/CFA Centre for Financial Integrity
P.O. Box 3668
Charlottesville, Virginia 22903

Re: Guidance Statement on Verifier Independence

Dear Sir/Madam,

Thank you for the opportunity to comment on the proposed Guidance Statement on Verifier Independence.

The Security Analysts Association of Japan (SAAJ) is the sponsor of the SAAJ Investment Performance Standards (SAAJ-IPS[®]), the Japanese Version of GIPS. Following are our comments based on discussion within the SAAJ-IPS Committee, consisting of professionals from a wide range of the investment industry such as various kinds of asset managers, pension funds, consultants, and verifiers.

1. Do you agree with the principles established in the Guidance Statement?

We have comments and suggestions as follows:

A. "Introduction"

- (1) In "Guidance for Verification" already adopted by the IPC, verifier independence is clearly defined from the viewpoint of being independent of the investment management firm:

"... the verification must be performed by a "verifier" with appropriate professional abilities and practical experience and who is independent of the investment management firm."

"The qualification that the verifier be "independent of the investment management firm" means that generally neither the verifier nor the investment management firm should have a direct conflict of interest."

Such should also be clearly indicated in "Introduction" of the proposed Guidance Statement.

- (2) The following description appears in the 1st paragraph:

"... a verification firm must strive to create its own policies and procedures that maintain its independence within the parent organization

and, ...”

It is not easy to understand the underlined part because whether “within the parent organization” is related to “create” or “maintain its independence” is vague, as is what “the parent organization” represents in this context.

The meaning of “the parent organization” (from what point of view the term is used) should be clarified.

Does the underlined part mean that a verifier must consistently strive to create its own policies and procedures that maintain its independence within the parent organization when the verification firm has some offices on a global basis? If so, such should be more clearly indicated and explained to avoid any misunderstanding.

(3) The 3rd paragraph (p3) of “Introduction” states:

“If a verifier provides other services to the verification client, the verifier should discuss with the verification client whether the verification client should include a disclosure in GIPS-compliant presentations which describes the other services performed by the verifier, and/or offers to provide additional information about those services to its clients or prospective clients, upon request.”

Regarding this paragraph, the following points should be clarified:

- a. Whether all other services should be disclosed regardless of the verifier independence issue or only other services that are identified as affecting verifier independence.
- b. To what extent such information should be disclosed. Considering that investment management firms may have to preserve confidentiality regarding specific services they receive, we understand that disclosure is limited to types of services (such as auditing, etc.), i.e., it is not necessary to disclose specific transactions.

B. “Guiding Principles”

(1) The following are provided as “Guiding Principles”:

3rd bullet point

“The verification firm has an obligation to discuss with the prospective verification client their conclusions on their consideration of independence issues.”

4th bullet point

“The verification firm should come to an agreement with the client concerning the verification firm’s independence, and whether any additional disclosure should be made by the verification client in compliant presentations.”

- a. The description of the underlined part in the 4th bullet point is insufficient since it may put the investment management firm under an obligation

concerning the result of the verifier’s own assessment of its independence – it gives the impression that the verification firm and investment management firm share responsibility for “the verification firm’s independence”.

However, we understand that the verification firm is under an ultimate obligation to assess and secure its own independence. On the other hand, the investment management firm is under an obligation (a) to confirm information provided by the verifier, and/or to provide and explain information that the firm has, in order to assist the verifier’s assessment process of its independence, and (b) to select the verification firm that is fully qualified, independent, and able to perform a thorough and credible verification (as addressed in the already approved “Guidance for Verification”).

We strongly suggest that the underlined part should be revised to clarify the above elements. Otherwise, the part would be misunderstood.

- b. The 3rd bullet point listed as Guiding Principles should also be revised because what “their” represents is quite vague and the description is not appropriate for the reason mentioned above.

The last part of the 2nd paragraph of “Introduction” (“The verification firm, in discussion and agreement with their investment management client, may determine that answer”) should also be revised because “and agreement with their investment management client” is quite vague.

- c. In relation to a. and b. above, the following is stated under topic 2 (p5) regarding the assessment of verifier independence:

“A verification firm must disclose the known services that other units of the verification firm may be providing to the client, and the client should then be responsible for deciding whether an “unknown” service (unknown to the verifier) provided by the verification firm results in a conflict.”

We think it inappropriate to oblige the investment management firm to decide whether an “unknown” service results in a conflict, i.e., the verification firm should be responsible for grasping all other services provided to its client and assessing its independence. (We understand that all “types” of other services, not specific confidential transactions, can be sufficiently grasped through the verification firm’s compliance section.)

- (2) Topic 3 (p5) regarding the assessment of verifier independence:

- b. The latter part of the 1st paragraph (“While certain tasks may be outsourced to external service providers, ... with the investment management firm.”) does not have any relation with the issue of verifier independence and should therefore be deleted.
- c. Although the 3rd bullet point is indicated as performance-related services that “might not” create an independence issue, it “might” create an independence issue depending on what is actually done and in what

situation.

- d. The latter part of the 7th bullet point indicated as performance-related services that might create an independence conflict (p6) (i.e. “The verifier can maintain data duplicate for its own purposes ... firm’s primary data source.”) should be deleted since the description is inappropriate considering normal business practice of the verifiers.

(3) Topic 4 (p6) regarding the assessment of verifier independence:

It is stated “Disclosure of a personal or financial relationship does not ‘cure’ this type of independence conflict”. Using “this type” gives the impression that there are other types of independence conflict that can be ‘cured’ by disclosure. However, when conflict exists, it is true in any kind of conflict (not limited to a personal or financial relationship) that disclosure does not ‘cure’ the conflict. Therefore, the point should be addressed not only in topic 4 but also in the “Introduction”.

C. “Applications”

At the beginning of the “Applications” section, we recommend that the description as below should be inserted:

“Applications are provided as a reference but the verification firm must exercise extreme caution when making a decision on whether it provides additional services or not on individual cases in accordance with its policies and procedures.”

Specific comments on each application are as follows:

Application 1:

As addressed in B (1) above, it is the verification firm’s responsibility to assess and secure its independence and thus we disagree with “joint obligation” imposed on both the verification firm and the investment management firm regarding the result of the verifier’s own assessment of its independence. We believe that the obligation of the investment management firm is to confirm information provided by the verifier and/or provide the verifier with information that the firm has, in order to assist the verifier’s assessment process of its independence.

Application 2:

What is the meaning of “directly” to the GIPS-compliance process”?

What is the difference between the items listed as performance-related services that might create an independence conflict (first part of p6) and those of management functions listed in Application 2 (there is some duplication between the lists).

More explanation should be added with respect to what policies and procedures should be established as management functions.

Application 3:

It is questionable in practice whether previously issued verification reports can be recalled.

Application 4:

Providing a spreadsheet template to a client might impair verifier independence even though the client assumes full responsibility for the calculation methodology and thus we do not think it appropriate as an application.

Application 5:

To answer “Yes” to the question seems inappropriate since the verifier should be very careful that no independence issue arises even though the verifier does not receive any compensation from the systems providers for their review or recommendation.

Application 6:

“Yes” should be avoided since it might create an independence problem.

Application 7:

It is inappropriate for the verifier to produce a compliant presentation for an examined composite in any way and we thus suggest Application 7 be deleted.

2. Are there other elements involved in verifier independence that are not included?

Since verifier independence involves sensitive issues, we recommend the Guidance Statement be reviewed by a legal counselor including the usage of terms and wording.

3. Do you agree with the proposed Effective Date?

On condition that all of the above points/suggestions are fully considered and reasonably reflected in the final version, we agree with the proposed effective date of 1 January 2006.

Sincerely yours,

The Security Analysts Association of Japan