

The Security Analysts Association of Japan

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

January 31, 2006

Re: Guidance Statement on Performance Examinations

Dear Sir/Madam,

Thank you for the opportunity to comment on the proposed Guidance Statement on Performance Examinations.

Following are our comments based on discussion within SAAJ's Investment Performance Standards Committee.

1. *Do you agree with the scope and purpose of the Guidance Statement?*

1-1. We oppose providing a Guidance Statement on Performance Examinations at this stage for the following reasons:

- (1) The standards for "Verification" (Section III) in the GIPS Standards have not been substantially reviewed since its establishment of 1999. We believe the new GIPS governing body should give first priority to reviewing and improving existing verification standards, especially since it is highly likely verification will become mandatory.

In Japan, the Japanese Institute of Certified Public Accountants provides Practical Guidelines for Verification (established in 2001) and one of its working groups, in which some members of SAAJ's IPS Committee participate, is now reviewing the Guidelines including the format of the verification report because of the transition of the SAAJ-IPS Standards to the Japanese Translation of GIPS.

- (2) There is no demand for performance examinations in the investment industry in Japan.
- (3) As clearly mentioned in Section III.C of the GIPS Standards, performance examinations are neither recommended nor required, they are only an option. To provide such guidance statement would create unnecessary demand for performance examinations on specific composites and might lead to the overall inefficiency of the GIPS additional redundant verification structure by having process.
- (4) As stated above, we oppose providing a Guidance Statement on Performance Examinations. If deemed absolutely necessary to provide, then we believe the following conditions must be cleared:

- a To firstly review and improve the current verification provisions of the GIPS Standards; and
- b To conduct a full survey through country sponsors as to whether demand for performance examinations really exists. (Although the Executive Summary of the proposed document states that the IPC's Verification Subcommittee surveyed all endorsed Country Sponsors, we were not approached and know nothing about the survey process, nor the results.)

1-2. Assuming there is need for providing a guidance statement for performance examinations upon clearing the above conditions (1-1.(4)), if we were to comment on details of the proposed Guidance Statement, it would be as follows:

- (1) In the "Introduction" section, the 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.
- (2) The scope and purpose of "performance examination" should be defined carefully considering the relation to those of "verification". For instance:
 - As new sections (such as Section 0) and provisions are added to the revised GIPS Standards, the scope of "verification" should be reviewed in the framework of the revised GIPS Standards and then the scope and purpose of "performance examination" should be defined.
 - The definition of terms of "verification", "review", and "examination" should be given in the Guidance Statement to correctly understand what each term represents.
- (3) The proposed Guidance Statement is constructed on the assumption that the verifier for "examination" is different from that for "verification" on the same investment firm. However, we think that 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), issues such as independence and how a verification report should be treated (in case it is concluded after examination that the composite presentation does not comply with the GIPS requirements) can be properly guided by already-existing two guidance statements on verification and verifier independence.

- (4) Since verification tests the firm's compliance with all the composite construction requirements of the GIPS standards on a firm-wide basis, 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.

2. *Do you agree with the processes established in the Guidance Statement?*

2-1. See comment 1-1.

2-2. Assuming there is need for providing a guidance statement for performance examinations upon clearing the conditions (see 1-1.(4)), if we were to comment:

- (1) After reviewing and improving the current “verification” procedures, those for “examination” as optional service should be considered.
- (2) Based on 1-2.(3) above, the section of “Pre-Performance Examination Procedures” is not necessary.

3. *Are there other elements involved in a Performance Examination that are not included?*

See comment 1-1. and 2-2.

4. *Do you agree with the Applications?*

4-1. See comment 1-1.

4-2. Assuming there is need for providing a guidance statement for performance examinations upon clearing the conditions (see 1-1.(4)), if we were to comment:

- (1) Application 1: As discussed in comment 1-2.(4) above, “examination” beyond the period covered by “verification” should not be allowed and therefore Application 1 should be deleted.
- (2) Application 2: Based on 1-2.(3) above, Application 2 is not necessary.
- (3) Application 3: 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. As discussed in 1-1.(4), the current “verification” provisions should first be reviewed including a sample verification report.

5. *Do you agree with the proposed Effective Date?*

As mentioned in 1-1. above, we oppose providing a Guidance Statement on Performance Examinations. Accordingly, the proposed effective date is out of the question.

Sincerely yours,

The Security Analysts Association of Japan