



Global Investment Performance Standards

Guidance Statement on Verification

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www.gipsstandards.org

GIPS® Guidance Statement on Verification

Introduction

This Guidance Statement supplements the verification procedures outlined in ~~Section III, Chapter IV~~ of the Global Investment Performance Standards (GIPS®) and ~~attempts to provide~~ provides additional guidance to ~~both~~ verifiers ~~as well as~~ and investment management firms ~~seeking verification engagements~~. Verification is a process by which a verifier assesses whether the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis, and the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The GIPS standards recommend that firms be verified.

Verifier Qualification Requirements

~~When an investment management firm undertakes verification of its claim of compliance with the GIPS standards, t~~The verification must be performed by a “verifier” with appropriate professional abilities and experience, and a practical ~~experience and who is independent of the investment management firm.~~ level of expertise regarding investment management practices, including performance calculation procedures and business processes. Verifiers must be knowledgeable about the GIPS Sstandards and ~~also have a practical level of expertise regarding investment management practices, including performance calculation procedures and business processes; however, the Standards do not contain specific qualification requirements to effectively verify compliance with the GIPS standards. The verifier must be “independent of the investment management firm,” which means that generally neither the verifier nor the investment management firm should have a direct conflict of interest. Other consultancy or audit engagements do not necessarily constitute a direct conflict of interest. Verification firms should be cognizant of their role as advisors or performance measurers in the pre-verification stage and ensure that potential conflicts are managed, while investment management firms must satisfy themselves that the verifiers they employ manage the conflicts appropriately. Investment management firms must retain the ultimate responsibility for the decisions made. must understand all the requirements and recommendations of the GIPS standards, including any updates, Guidance Statements, interpretations, Questions & Answers (Q&As), and clarifications published by CFA Institute and the GIPS Executive Committee, which are available on the GIPS standards website (www.gipsstandards.org) as well as in the *GIPS Handbook*. Verifiers must also be knowledgeable of applicable laws and regulations regarding the calculation and presentation of performance.~~

The verification must be performed by a verifier who is independent of the investment management firm. Verifiers must maintain fairness and independence at all times when ~~determining facts and performing~~ procedures relevant to evaluate a firm's claim of compliance as well as in expressing their opinions~~, in the verification report~~. Please see the Guidance Statement on Verifier Independence for additional guidance.

Verifiers generally comprise auditing, consulting, and other firms that have a high degree of knowledge regarding the investment management industry. Verifiers must consider~~follow~~ currently accepted standards of practice within their industry (if applicable) when ~~verifying an investment management firm's compliance with performing a verification pursuant to~~ the GIPS standards.

The GIPS standards do not include additional qualification requirements to conduct a verification.

~~A verifier is selected and appointed by the investment management firm. In the selection process, the investment management firm should give full consideration to the considerations described above and select a candidate who is fully qualified, independent and able to perform a thorough and credible verification.~~

Knowledge of Firm Policies

Verifiers must understand the firm's policies and procedures for establishing and maintaining compliance with all applicable requirements and adopted recommendations of the GIPS standards. The verifier must obtain a copy of the firm's policies and procedures used in establishing and maintaining compliance with the GIPS standards and ensure that all applicable policies and procedures are properly included and adequately documented. The verifier must also ensure that the policies and procedures are clear, unambiguous, and consistent with the GIPS standards and meet any applicable requirements of the GIPS standards. For example, verifiers must understand the firm's policies and procedures with regard to, but not limited to, the following items:

- Investment discretion. The verifier must obtain a copy of the firm's definition of investment discretion and the firm's guidelines for determining whether portfolios are discretionary;
- Definition of composite according to investment strategy. The verifier must obtain the firm's list of composite definitions with criteria for assignment of portfolios in each composite;
- Timing of inclusion of new portfolios in the composites;
- Timing of exclusion of closed portfolios in the composites;
- Accrual of interest and dividend income;
- Treatment of fees;
- Valuation of portfolio investments, including policies for determination of fair value;
- Computing the rates of return for each portfolio;
- Handling of cash flows (assumptions on the timing of capital inflows/outflows and handling of large and, where applicable, significant cash flows;
- Computing composite returns;
- Error correction;
- Presentation of composite returns;
- Use of leverage, derivatives and short positions;
- Maintenance of books and records supporting the calculation of portfolio and composite returns, including the existence and ownership of client assets;
- Selection, construction and calculation of composite benchmarks; and
- Any other policies and procedures relevant to performance presentation.

Sampling

Verifiers may use a sampling methodology when performing verification procedures. The size of the sample will vary based on the verifier's judgment. Not only must the verifier determine the appropriate sample size, but the verifier must also determine if the sample

selected is reasonable considering the firm's specific circumstances. Please see Chapter IV of the GIPS standards for further requirements on sample selection.

Using the Work of Other Verifiers and Independent Third Parties

The GIPS standards state, at Section III.A.6, that a principal verifier may accept the work of a local or previous another verifier as part of the basis for the principal verifier's opinion. For example, when a firm engaged in global asset management services undertakes verification for its claim of compliance on a worldwide basis, including local offices/branches, the principal verifier may use the verification results of work already performed for a local office/branch by another local verifier. Similarly, when another verifier has already performed verified a part of the firm's historical performance record, a verification, the current verifier may choose to accept the work of the previous verifier. A principal verifier may also choose to rely on the audit and/or internal control work of a qualified and reputable independent third party with appropriate professional abilities and experience, and a practical level of expertise regarding investment management practices, including performance calculation procedures and business processes. This third party must be knowledgeable about the GIPS standards and must understand all the applicable requirements and recommendations of the GIPS standards, including any updates, Guidance Statements, interpretations, Questions & Answers (Q&As), and clarifications published by CFA Institute and the GIPS Executive Committee, which are available on the GIPS standards website (www.gipsstandards.org) as well as in the GIPS Handbook. This third party must also be knowledgeable of applicable laws and regulations regarding the calculation and presentation of performance. In addition, a principal verifier may choose to rely on the other audit and/or internal control work performed by the verifier.

A principal verifier's opinion may state that it has relied upon other named verifiers' opinions in arriving at its overall opinion. If the opinion refers to other verifiers, the principal verifier cannot be held responsible for the opinion of the other verifiers. Should the investment management firm wish that responsibility to reside with the principal verifier, it should be included in the contract between the firm and the principal verifier. In such circumstances the principal verifier should undertake the due diligence it deems necessary to satisfy its own requirements.

Investment Management Firm—Verifier Relationship Representation Letter

Prior to expressing an opinion, the verifier must obtain from the management of the firm a representation letter including confirmation of the claim of compliance and of other specific that policies and procedures used in establishing and maintaining compliance with the GIPS standards are as described in the firm's policies and procedures documents and have been consistently applied throughout the period(s) being verified. The representation letter must also include confirmation that the firm complies with the GIPS standards for the period(s) being verified and any other relevant representations made to the verifier during verification. Typically such confirmation, the representation letter will include the following representations:

- The firm's policies and procedures for establishing and maintaining compliance with the GIPS standards are properly described in the firm's GIPS policies and procedures documents;

- The firm's policies and procedures for establishing and maintaining compliance with the GIPS standards have been consistently applied throughout the period being verified;
- The firm is in compliance with the GIPS standards on a firm-wide basis;
- The firm's management bears all responsibility for ~~the creation of the investment performance report~~ maintaining compliance with the GIPS standards, including production and distribution of all compliant presentations;
- The ~~investment performance reports~~ compliant presentations are a fair and honest representation of the firm's investment performance;
- ~~the documented procedures that the firm used to establish and maintain compliance throughout the entire period of the verification have been followed;~~
- The firm has not knowingly presented performance or performance-related information that is false or misleading;
- The firm has provided the verifier with all necessary documents to be able to perform the verification and no relevant documents have been withheld;
- The time period the verifiers are ~~asked to report~~ reporting on;
- The firm complies with all applicable laws and regulations regarding the calculation and presentation of performance; and
- ~~That n~~ No ~~significant~~ events that would materially influence performance results or the outcome of the verification have occurred up to the date ~~when~~ of the ~~verifier~~ expresses an opinion representation letter.

GIPS Verification Report

The verification report must ~~confirm the verifier's opinion on the following, as provided in Section III.A.4~~ opine that:

1. The firm has complied with all the composite construction requirements of the GIPS ~~Standards~~ standards on a firm-wide basis, and
2. The firm's ~~processes~~ policies and procedures are designed to calculate and present performance ~~results~~ in compliance with the GIPS standards.

The following information is also required to be included in the verification report:
~~The Standards do not specify any particular format for the verification report issued by verifiers, but a report generally includes the following information in addition to the verifier's opinion:~~

- The report title;
- The report date;
- The report addressee;
- The ~~defined definition of the~~ firm for which the verification has been performed;
- The period(s) for which the verification has been performed;
- The ~~respective responsibilities~~ responsibility of the firm's management and of the verifier, including a statement acknowledging the responsibility of the firm for the claim of compliance ~~and that of the verifier;~~
- A ~~statement to the effect that verification has been performed in accordance with the~~ required verification procedures of the GIPS standards;
- A ~~statement indicating that verification does not ensure the accuracy of any~~ specific composite presentation;

- A statement describing any other professional guidance that has been applied (e.g., AICPA, IAASB, ICAEW, JICPA guidance); any other details that should be mentioned and
- The signature or official seal of the verifier.

In addition to the required content, the verifier's opinion may also include additional information, as appropriate, to make the context of the particular verification work clear.

Without such a report from the verifier, the firm ~~cannot~~must not state that ~~is claim of compliance with the GIPS standards~~it has been verified.

If the verifier concludes that the firm is not in compliance with the GIPS standards or that the records of the firm cannot support a ~~complete~~ verification, the verifier must issue a statement to the firm clarifying why a verification report ~~was~~could not ~~possible, as provided in Section III.A.5 of the Standards~~be issued.

Recommendation Letter

After verification is complete, it is recommended that verifiers issue a recommendation letter to the firm describing specific findings, recommendations or other areas of improvement arising from the verification.

Performance Examinations of Compliant Detailed Examinations of Investment Performance Presentations

~~A verification does not have the objective of examining the purpose and scope of GIPS verification is to confirm that the firm has complied with all the composite construction requirements of the Standards on a firm-wide basis and the firm's performance measurement processes and procedures are designed to calculate and present performance results in compliance with the Standards on a firm-wide basis, and are not to be seen as an attempt to confirm the appropriateness of specific performance results presented.~~

~~An investment management To accomplish that objective, a firm may also choose to have a more detailed and specifically-focused performance examination (or performance audit) of a specific composite particular composite's compliant presentation in addition to the verification provided in the Standards. A performance examination may be conducted at the discretion of the firm only in addition to the verification set forth in the Standards. Therefore, even if an investment management firm undertakes a performance examination, the firm cannot make a claim of verification unless the entire firm has been is not required for a firm to be verified in accordance with the GIPS standards and has received a verification report from a verifier. A.~~

Please see the Guidance Statement for on Performance Examinations is being developed to provide additional for specific guidance on this subject.

~~When an investment management firm undertakes a performance examination of a specific composite in addition to the verification set forth in the Standards, the verifier~~

~~naturally has to perform additional procedures to determine the appropriateness of the relevant composite performance presentation.~~

Effective Date

This Guidance Statement was originally effective 13 March 2002 and was initially revised to reflect the changes to the GIPS standards effective as of 1 January 2006.

~~Verification and investment management firms are encouraged, but not required, to apply this guidance prior to the original Effective Date of 13 March 2002; however, the original guidance must be applied to all presentations that include performance for periods on and after that date. The Subsequent revisions made to this guidance (were made to coincide with the effective date of the 2010 1 January 2006) must be applied to all presentations that include performance for periods after 31 December 2005.~~ edition of the GIPS standards, which is 1 January 2011. Verifiers must conduct their verification engagements in accordance with this Guidance Statement for all verifications contracted on or after 1 January 2011 or prior to 1 January 2011 if the investment management firm has adopted the 2010 edition of the GIPS standards. The contract date is typically evidenced by the date of the engagement letter signed by management of both the verifier and the investment management firm. Verifiers may also voluntarily conduct their verification engagements in accordance with this Guidance Statement prior to 1 January 2011 and are encouraged to do so. Prior versions of this Guidance Statement are available on the GIPS standards website (www.gipsstandards.org).