



Global Investment Performance Standards

GIPS® Guidance Statement on Verification

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Guidance Statement for Verification (Revised)

Introduction

This Guidance Statement supplements the verification procedures outlined in Section III. of the Global Investment Performance Standards (GIPS[®]) and attempts to provide additional guidance to both verifiers as well as investment management firms seeking verification engagements.

Verifier Qualification Requirements

When an investment management firm undertakes verification of its claim of compliance with the GIPS standards, the verification must be performed by a “verifier” with appropriate professional abilities and practical experience and who is independent of the investment management firm. Verifiers generally comprise auditing, consulting, and other firms that have a high degree of knowledge regarding the investment management industry. Verifiers must consider currently accepted standards of practice within their industry (if applicable) when verifying an investment management firm’s compliance with the GIPS standards.

Verifiers must be knowledgeable about the Standards 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. Please see the Guidance Statement on Verifier Independence for additional guidance.

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.

Investment Management Firm – Verifier Relationship

Verifiers must maintain fairness and independence at all times when determining facts and procedures relevant to a firm’s claim of compliance as well as in expressing opinions. Prior to expressing an opinion, the verifier must obtain from the management of the firm a confirmation of the claim of compliance and of other specific representations made to the verifier during verification. Typically such confirmation will include the following representations:

- 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

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- performance report;
- the investment performance reports 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 provided the verifier with all necessary documents to be able to perform verification;
- the time period the verifiers are asked to report on; and
- that no significant events that would materially influence performance results have occurred up to the date when the verifier expresses an opinion.

Using the Work of Other Verifiers

The Standards state, at Section III.A.6, that a principal verifier may accept the work of a local or previous 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 verification results already performed for a local office/branch by a local verifier. Similarly, when another verifier has already verified a part of the firm's historical performance record, the current verifier may accept the work of the previous 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.

Verification Report

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

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

Without such a report from the verifier, the firm cannot state that its claim of compliance with the GIPS standards has been verified.

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;

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- the definition of the firm for which the verification has been performed;
- the period(s) for which the verification has been performed;
- the responsibility of the firm's management for the claim of compliance and that of the verifier;
- a statement to the effect that verification has been performed in accordance with the GIPS standards;
- any other details that should be mentioned; and
- the signature or official seal of the verifier.

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 not possible, as provided in Section III.A.5 of the Standards.

Detailed Examinations of Investment Performance Presentations

It should be noted that 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 firm may choose to have a more detailed and specifically-focused examination (or performance audit) of a specific composite 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 verified in accordance with the GIPS standards and has received a verification report from a verifier. A Guidance Statement for Performance Examinations is being developed to provide additional 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 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 revisions made to this guidance (effective 1 January 2006) must be applied to all presentations that include performance for periods after 31 December 2005.

Applications:

1. *Is verification of a firm's claim of compliance required?*

No. The GIPS standards currently recommend that firms have a verification performed by an independent third party. Verification is a firm-wide test of a firm's compliance with certain requirements of the GIPS standards.

It should be noted that the GIPS standards state the following: Verification is strongly encouraged and is expected to become mandatory at a future date. The issue of mandatory verification will be re-evaluated by 2010 and the industry will be provided sufficient time to implement any change.

2. *Can a verification be performed on a composite or on an individual account or fund within a composite?*

No, only a firm may be verified. A verification report is issued for a firm, not for a composite, fund or account. The Standards provide that a detailed performance examination can be performed on an individual composite either after or in conjunction with a firm-wide verification.

3. *A firm's management has decided to omit measures of dispersion from composite presentations due to the complexity of the calculations and the firm's verifiers have agreed to sign a verification report with an "except for" paragraph. The verifiers contend that as long as the presentations disclose why this data is omitted, that the composites are presented in compliance with the GIPS standards. Is this correct?*

No. Provision 5.A.1.d requires that a composite's performance presentation include a measure of dispersion of individual portfolio returns for each annual period presented. Only when the composite contains five or fewer portfolios for the full year is a measure of dispersion not required to be presented. Firms may not omit required information from a "GIPS compliant" presentation and remain "in compliance." Firms must be in compliance on a firm-wide basis and meet all the requirements of the Standards to claim compliance. Firms cannot state they are in compliance "except for" certain provisions. If a firm does not include all relevant required disclosures, as well as relevant presentation and reporting requirements in a composite presentation, the firm may not claim compliance with the GIPS standards and a verifier cannot issue a verification report.

4. *Our firm has been in compliance with the GIPS standards since 2000. We obtained a verification from an independent verifier which covered the periods from 1995 through December 31, 2002. At what point does our verification "expire"?*

It would be misleading for a firm to state that a verification has been performed without specifying the appropriate time period covered by the verification. If your firm makes reference to the verification in the disclosures to a composite presentation, unless all time

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periods presented have been verified, you must disclose which periods have been verified.

While a verification does not expire after a certain period of time, a firm should consider whether references to a verification that covers periods more than 24 months ago have the potential to be misleading.

5. *What requirements must a verifier meet in order to be able to perform a GIPS verification?*

Any third-party that is knowledgeable about the Standards, investment performance measurement, portfolio accounting, and investment management and is independent from the investment management firm may perform a verification; independent and knowledgeable are the key words. The Guidance Statement on Verifier Independence discusses in more detail the notion of independence. While firms are encouraged to conduct a “self-check” of their compliance, perhaps by their internal audit department, this would not constitute a verification: an investment management firm’s internal audit department is not independent from the investment management firm.