ADOPTING RELEASE:
GUIDANCE STATEMENT ON PERFORMANCE EXAMINATIONS (Effective date 1 July 2012)

Below is a summary of the comments received during the public comment period. Interested parties were asked to respond to the appropriateness of specific items as well as to identify any matters that needed changing in the proposed revisions to the Guidance Statement on Performance Examination. All comment letters are available at: http://www.gipsstandards.org/standards/guidance/comments/performance_examinations_gs_comments_received.html

Background
The Guidance Statement has been updated to reflect the 2010 edition of the GIPS standards as well as the revised Guidance Statement on Verification. The revision was also intended to improve existing guidance on performance examinations. Questions and answers originally included in the previous version of the Guidance Statement on Performance Examinations have been removed and are being updated for inclusion on the GIPS Q&A Database.

Exposure Draft Questions

1. **Introduction (now Scope and Purpose of Performance Examination)**—The GIPS standards make use of the terms “composite” and/or “composite presentation” when describing performance examinations. The proposed Guidance Statement indicates that both terms are to be viewed interchangeably as it is the composite, including its associated composite presentation, that is examined as part of a performance examination. Please indicate in your comments whether you agree or disagree with such an approach and provide specific alternatives if deemed necessary.

The majority of responses did not support the using the above terms interchangeably. The consensus view was that using the terms interchangeably would create confusion and could result in language that does not make sense. In order to reflect the 2010 edition of the GIPS standards, defined terms as stated in the GIPS Glossary were used where possible. That led to a question about the term “compliant presentation.” By definition, a compliant presentation contains all the required information and could also include additional information or supplemental information. A composite presentation that does not include all the requirements of the GIPS standards is, by definition, not a compliant presentation.

In conclusion, the terms have not been used interchangeably and terms such as “composite” or “compliant presentation” or “composite and its associated compliant presentation” have been used as deemed appropriate.

2. **Performance Examination Procedures—Portfolio Selection:** The proposed Guidance Statement indicates that the verifier must obtain a list of all open (both new and existing) and closed portfolios for the firm for the period(s) under examination in order to test for proper portfolio inclusion and exclusion for a composite. Please indicate in your comments whether you agree or disagree.

The vast majority of respondents agreed that in order to determine that the proper portfolios are included in the examined composite; the verifier conducting the performance examination must obtain a list of all open and terminated portfolios for the firm for the period under review, although some expressed concern regarding cost implications. As part of the verification (as opposed to performance examination) procedures, verifiers are required to subject the entire firm to testing (unless reliance is placed on work performed by a qualified and reputable third party or appropriate alternative control procedures have been performed by the verifier) and must obtain lists of all open (both new and existing) and closed portfolios for all composites for the periods being verified. Verifiers are required to select portfolios from these lists as part of their verification testing. Consequently, some believe that requiring the verifiers to obtain these items as part of the required performance examination procedures is a duplication of effort which will lead to unnecessary costs. It was concluded that no significant changes were needed to the proposed language as the list(s) described above must be obtained for both verification and performance examination testing.

3. **Performance Examination Procedures—Portfolio Trade Processing:** The proposed Guidance Statement indicates that sufficient procedures must be performed to determine that portfolio trading activity is supported by appropriate documentation such as custody statements, trade confirmations, and reconciliations. Do you believe it also needs to be indicated that:
   a. it is preferable that verifiers obtain appropriate documentation directly from independent external parties;
b. verifiers must make every reasonable effort to obtain appropriate documentation directly from independent external parties; or 
c. verifiers must obtain appropriate documentation directly from independent external parties?

Many respondents believed this question was beyond the scope of the Guidance Statement or that each verifier should be able to decide for themselves what sort of validation was required based on the circumstances and the controls in place. In addition, obtaining appropriate documentation directly from independent external parties such as banks or custodians was considered by some respondents to be unfeasible as the verifier has no legal right to do so. We also received feedback for additional guidance on what is to be expected of verifiers in this area.

In conclusion, option (a), i.e. “it is preferable that verifiers obtain appropriate documentation directly from independent external parties”, was deemed to be appropriate and has been included in the Guidance Statement. This does not preclude verifiers from deciding on the nature of the documentation required, based on the controls of the firm and the verifier’s assessment of risk of error. Furthermore, it does not require verifiers to obtain documentation which may not be available to them.

4. Performance Examination Procedures- Existence and Ownership of Client Assets: The proposed Guidance Statement indicates sufficient procedures must be performed to determine that beginning- and end-of-performance measurement period portfolio positions are supported by sufficient documentation such as custody statements and custody reconciliations, and the verifier must make every reasonable effort to obtain these documents directly from independent external parties (e.g., custodian, broker). Similar to item 3 above, do you believe that instead of the above language, that it needs to be indicated that:

a. it is preferable that verifiers obtain appropriate documentation directly from independent external parties; or
b. verifiers must obtain appropriate documentation directly from independent external parties?

As the latest edition of the GIPS standards required firms to ensure the existence and ownership of client assets some respondents believed that additional guidance for performance examinations was needed in this area. Many respondents however expressed similar views as they had in the above question regarding trade processing. Consistent with the question above, the proposed language was rejected as option (a) has been deemed to be the most appropriate. Accordingly, the Guidance Statement text has been modified to indicate that it is preferable that verifiers obtain appropriate documentation directly from independent external parties.

5. Performance Examination Procedures- Compliant Composite Presentation Information and Disclosures: The proposed Guidance Statement indicates that when supplemental information is presented in the examined composite’s compliant presentation, at a minimum, the verifier must ensure that the supplemental information is not false or misleading, and the supplemental information is clearly labeled and identified as supplemental information to a particular compliant presentation. Please provide feedback as to the responsibility of the verifier if supplemental information for the composite is presented outside of the compliant presentation being examined and if deemed appropriate, how this should be incorporated into the Guidance Statement.

Responses to this question varied and there seemed to be no consensus regarding supplemental information presented in the examined composite’s compliant presentation. The majority of respondents considered the verifier to have no responsibility when supplemental information for the composite is presented outside the compliant presentation being examined. Others expressed views that the firm and the verifier should decide whether supplemental information is or is not included in the scope of the performance examination. There were also some suggestions that further clarification is needed regarding the verifier’s responsibilities for supplemental information in a composite’s compliant presentation as well as outside the compliant presentation. Furthermore, some respondents were of the view that the latest version of the Guidance Statement on Supplemental Information needs to be updated.

It has been concluded that, when supplemental information is presented in the examined composite’s compliant presentation, at a minimum, the verifier must determine that the supplemental information is not misleading, clearly not false, or not otherwise allowed to be presented, and is correctly and clearly labeled and identified as supplemental information to a particular compliant presentation. If the investment management firm wants supplemental information to be examined by the verifier as part of the performance examination, this should be discussed and the terms agreed between the verifier and the firm. Additional required text has been added to the
performance examination report indicating whether or not the performance examination covers supplemental information included in or attached to the compliant composite presentation.

Other Comments

Comments were received regarding the consistency of language used in the document. The Guidance Statement was reviewed for consistency of language both within the document as well as with other existing authoritative guidance. Changes were made where possible and as deemed appropriate.

Based in part on the feedback received during the public comment period, language was added indicating that the representation letter must be obtained at the conclusion of the performance examination engagement, and the following items were added as examples of language that is typically included in a representation letter. “To the best of the firm’s knowledge and belief, there has been no:

1. fraud or alleged fraud involving management or employees who have significant roles in the firm’s processes and procedures relating to compliance with the GIPS standards, or
2. fraud or alleged fraud involving others that could have a material effect on the firm’s compliance with the GIPS standards.”

Language was also added to the Guidance Statement indicating that the performance examination report title must include the words “performance examination.”