Overall, the Members felt that the incorporation of knowledge of firm policies and the standardization of items in the verifier’s opinion were good revisions to the Guidance Statement on Verification. Specific comments were:

Investment Management Firm – Verifier Relationship

Members do not agree with the statement that the firm bears all responsibility for the production and distribution of all compliant presentation in the representation letter. Firms are only required to provide a compliant presentation for any composite listed base on request and make every reasonable effort to provide a compliant presentation to all prospective clients.

Firms are not required to distribute all compliant presentation listed on the firm’s list, only when requested as per provision 0.A.11. Furthermore, the reasonable effort to distribute to all prospective clients pertains to the relevant compliant presentation to the person or entity that has express interest in the particular strategies and qualifies to invest in the composite, not all compliant representation.

Members felt that the sentence in the 4th bullet point of the paragraph should be amended to read: including production and distribution, where appropriate, all composite presentation OR including production and distribution of composite presentation.

Knowledge of Firm Policies

The second bullet states that verifiers must obtain the firm’s list of composite definition with criteria for assignment of portfolios in each composite. Members wonder if this should be a complete list of composite description as the provision 0.A.10 requires the firm to provide a complete list of composite description and not composite definition.

While the Members understand that verifiers would need the detailed criteria for determining the assignment of portfolios to composite to assess whether the firm has constructed composites appropriately, Members are concerned that the reference to the firm’s list of composite definition in the Guidance Statement would imply that firms are required to maintain the complete list of composite definition.

Furthermore, the general information regarding the investment management, objective, or strategy of the composite in the composite description is accessible whereas the “list” of composite definition may or may not exist or readily available.
Effective Date

Members solicit clarification on the effective date of the Guidance Statement. As is presented, the Guidance Statement applies to 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.

Members wonder if the Guidance Statement should apply when verifiers are reviewing firm’s claim of compliance for periods that include 1 January 2011 and forward as verifiers may be contracted to assess the firm’s claim of compliance for periods prior to 1 January 2011 or that adheres to the 2005 edition of the GIPS standards.

Supplemental Information

Members are aware that the GIPS Executive Committee is engaged in the discussion on whether verification should include supplemental information. Members of the Subcommittee strongly discourage inclusion of any supplemental information in the verification process. Tracking of supplemental information represented by a firm’s sales and marketing teams would be very difficult and the cost of verifying the numerous potential data points of supplemental information would be exorbitantly high.

Furthermore, verification as it is defined is to assess whether: a) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis, and b) the firm’s policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Supplemental information, by default, is out of scope of verification.

If necessary, Members request the opportunity to provide feedback on this matter upon clarification by the GIPS EC on what constituent supplemental information in the revision of the Guidance Statement on the Use of Supplemental Information.