

Global Investment Performance Standards

EXPOSURE DRAFT OF THE 2020 GIPS STANDARDS FOR VERIFIERS

Effective Date: 1 January 2020

Public Comment Period: 31 October 2018 – 31 December 2018



CFA Institute

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EXPOSURE DRAFT OF THE 2020 GIPS STANDARDS FOR VERIFIERS

INVITATION TO COMMENT

CFA Institute established the GIPS Executive Committee (EC) as the governing body for the Global Investment Performance Standards (GIPS®). The GIPS Technical Committee (TC) is responsible for technical oversight of the GIPS standards. The GIPS TC seeks comment on the following proposal regarding the proposed GIPS Standards for Verifiers that has been prepared in conjunction with the 2020 edition of the GIPS standards.

At the end of the Executive Summary are five questions covering areas for which we would like feedback on specific issues. In addition to responding to specific questions for which you have an opinion, please provide feedback on any other information in the document, including items you support. Comments are most helpful when they refer to specific paragraphs or the question number, include the reasons for the comments and, when appropriate, make specific suggestions for any proposed wording changes. All comment letters will be considered carefully and are greatly appreciated.

Comments must be received no later than 31 December 2018. Please submit your comments as early as possible to facilitate the review process. Unless otherwise requested, all comments will be made public on the GIPS standards website (www.gipsstandards.org). Comments may be submitted as follows:

Email: standards@cfainstitute.org
Post:

CFA Institute
Global Investment Performance Standards
Re: Exposure Draft of the 2020 GIPS Standards for Verifiers
915 East High Street
Charlottesville, VA 22902
USA

EXECUTIVE SUMMARY

Creating the 2020 edition of the Global Investment Performance Standards (“2020 GIPS Standards Exposure Draft”) required the Verification Subcommittee to update the existing verifier guidance. In doing so, we had the following aims:

- Update verifier procedures to conform to the 2020 GIPS Standards Exposure Draft
- Improve the clarity of existing verifier guidance
- Update required verifier procedures to reflect best practices

We decided that the verification and performance examination guidance would be more useful if combined into a single document. Hence, we brought together the existing guidance from Chapter IV of the 2010 edition of the GIPS standards, the Guidance Statement on Verification, the Guidance Statement on Performance Examinations, and any relevant Questions and Answers (Q&As). It is our intention that the GIPS Standards for Verifiers will replace the existing Guidance Statements on verification and performance examination.

We believe that the GIPS Standards for Verifiers should be maintained as a separate document because these are geared toward verifiers as opposed to the firms or asset owners that claim compliance with the GIPS standards.

Asset Owners

The verification and performance examination procedures are written from the perspective of a verifier that is conducting an engagement for a firm. The 2020 edition of the GIPS standards will have specific sections for asset owners, however, and asset owners can also choose to be verified. Incorporating the concept of asset owners into this document is not as simple as changing the use of the word “Firm” to “Firm and Asset Owner.” There are other terms that differ for asset owners, such as GIPS Asset Owner Report versus GIPS Composite Report or GIPS Pooled Fund Report. More importantly, the testing procedures need to be adapted to each asset owner based on its specific facts and circumstances. The specific procedures that need to be performed for one asset owner could significantly differ from those for another asset owner. The procedures will also differ from those required for firms. For example, because asset owners do not have prospective clients or investors, they have different requirements for distributing GIPS reports.

We have not drafted a separate set of verification and performance examination procedures for asset owners. To acknowledge these differences, however, we have included language for both verification and performance examination to explain that verifiers must tailor procedures for asset owners to the extent possible, based on each asset owner’s unique facts and circumstances.

Verification and Performance Examination Reports

We reassessed the wording of the verification and performance examination reports issued by the verifier and noted that the current wording of the verification report is not consistent with the required verification procedures. The current verification report focuses on two areas: (1) the firm’s compliance with composite construction requirements and (2) the design of policies and procedures related to the calculation and presentation of performance.

We have updated the verification report wording to more closely align it with the required testing procedures as well as to reflect the 2020 GIPS Standards Exposure Draft. In doing so, we have proposed

that the verifier's report state not only that the firm or asset owner has designed its policies and procedures in compliance with the GIPS standards but also that those policies and procedures have been implemented on a firm-wide or asset owner–wide basis.

We recognize, however, that verification does not test every requirement contained in the GIPS standards. For example, verifiers are not required to test whether firms and asset owners have complied with all applicable laws and regulations regarding the calculation and presentation of performance. Therefore, we felt it was important to address this issue, and in the Scope of Verification section we state that verification does not provide assurance on the firm's (or asset owner's) claim of compliance with the GIPS standards in its entirety.

Verifier Independence

Verifier independence requirements are currently addressed in the Guidance Statement on Verifier Independence. An updated Guidance Statement on Verifier Independence was released for public comment in 2017. We are no longer accepting comments on this document. The Guidance Statement on Verifier Independence is expected to be finalized and issued in 2019.

Glossary Terms and Dates

Words that are capitalized are defined terms that can be found in the Glossary included in the 2020 GIPS Standards Exposure Draft.

Effective Date

GIPS Composite Reports, GIPS Pooled Fund Reports, and GIPS Asset Owner Reports that include performance results for periods that end on or after 31 December 2020 must be prepared in accordance with the 2020 edition of the GIPS standards. Firms and asset owners may early adopt the 2020 edition of the GIPS standards.

Verifiers must conduct their engagements in accordance with the 2020 GIPS Standards for Verifiers for all verifications and performance examinations for which the verifier is reporting on one or more periods for which the firm or asset owner claims compliance following the 2020 edition of the GIPS standards.

Questions

These are the questions for which we would like feedback:

- 1) Do you agree with all the required verification and performance examination procedures?
- 2) Are there areas of testing that should be added? If so, please explain.
- 3) The wording for verification reports and performance examination reports has changed. Considering these changes:
 - a) Is it sufficiently clear that verification does not provide assurance on the firm's or asset owner's claim of compliance in its entirety? If applicable, please provide suggested wording in your response.
 - b) Do you agree with the change that the verifier's report opines on both the design and implementation of policies and procedures, for all period(s) being verified?

- c) Do you believe that the verifier’s report, and potentially the related claim of compliance, should refer to the fact that verification and performance examination procedures are conducted on a sample basis?
- 4) Do you believe the approach taken for asset owners as described above is the right approach?
- 5) Do you agree with the effective date of the 2020 GIPS Standards for Verifiers?

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VERIFICATION

Purpose of Verification

VERIFICATION is intended to provide a FIRM and its prospective and existing clients and pooled fund investors additional confidence in the FIRM'S claim of compliance with the GIPS standards. VERIFICATION may increase the knowledge of the FIRM'S performance measurement team and improve the consistency and quality of the FIRM'S GIPS-related performance information. VERIFICATION may also provide improved internal policies and procedures as well as marketing advantages to the FIRM.

The GIPS standards RECOMMEND that FIRMS be verified. VERIFICATION brings additional credibility to the claim of compliance and supports the overall guiding principles of full disclosure and fair representation of a FIRM'S investment performance. In defining the minimum REQUIRED VERIFICATION procedures, the cost and effort needed by FIRMS to undergo VERIFICATION has been considered.

Just as FIRMS may do, ASSET OWNERS may choose to be verified. VERIFICATION is intended to provide an ASSET OWNER and its oversight board additional confidence in the ASSET OWNER'S claim of compliance with the GIPS standards. The Exposure Draft of the 2020 GIPS Standards for Verifiers does not include VERIFICATION guidance specific to ASSET OWNERS. When considering this guidance for conducting a VERIFICATION of an ASSET OWNER, verifiers MUST interpret references to FIRMS as also referring to ASSET OWNERS, and they MUST interpret references to COMPOSITES as also referring to TOTAL FUNDS and additional COMPOSITES. Verifiers that conduct VERIFICATIONS for ASSET OWNERS MUST follow the REQUIRED VERIFICATION procedures to the extent possible, and they MUST tailor these procedures to fit the unique facts and circumstances of the ASSET OWNER. Verifiers MUST document their rationale for their testing approach, including why any REQUIRED VERIFICATION procedure was modified or not appropriate.

Verifier Qualification Requirements

The VERIFICATION MUST be performed by a qualified independent third party. Verifiers MUST have appropriate professional abilities and experience, as well as a practical level of expertise regarding investment management practices, including performance calculation procedures and business processes. Verifiers MUST be knowledgeable about the GIPS standards and MUST understand all the requirements and recommendations of the GIPS standards, including all applicable Guidance Statements, interpretations, and Questions & Answers (Q&As) published by CFA Institute and the GIPS Executive Committee, which are available on the GIPS standards website (www.gipsstandards.org). Verifiers MUST also be knowledgeable of applicable laws and regulations regarding the calculation and presentation of performance.

The verifier MUST be independent from the FIRM. Please see the Guidance Statement on Verifier Independence for additional guidance.

Verifiers are auditing, consulting, and other firms that have a high degree of knowledge regarding the investment management industry. Verifiers MUST follow any applicable professional guidance and standards of practice within their industry when performing a VERIFICATION.

Scope of Verification

A single VERIFICATION REPORT is issued on a FIRM-wide basis. VERIFICATION cannot be carried out only on a COMPOSITE or a POOLED FUND and, accordingly, provides no assurance about the performance of any specific COMPOSITE or POOLED FUND or any specific GIPS REPORT. FIRMS MUST NOT state that a specific COMPOSITE or POOLED FUND has been “verified” or make any claim to that effect.

FIRMS MUST comply with all applicable REQUIREMENTS of the GIPS standards, which include REQUIREMENTS beyond those specified in the REQUIRED VERIFICATION procedures. Therefore, VERIFICATION does not provide assurance on the FIRM’S claim of compliance with the GIPS standards in its entirety.

The initial minimum period for which VERIFICATION can be performed is one year (or from FIRM inception date through period end if less than one year) of a FIRM’S presented performance. It is RECOMMENDED that FIRMS be verified for all period(s) for which compliance with the GIPS standards is claimed.

Agreeing on the Terms of the Engagement

Prior to commencing the engagement, the verifier MUST agree on the terms of the VERIFICATION with the FIRM. The agreed terms MUST be specified in an engagement letter or other suitable form of written agreement and MUST include the following:

- a. The objective and scope of the engagement, including the period(s) being verified;
- b. The responsibilities of the verifier;
- c. The responsibilities of the FIRM;
- d. A statement about the inherent limitations of a VERIFICATION;
- e. A statement that the GIPS standards are the evaluation criteria for the engagement;
- f. A statement that the VERIFICATION does not provide assurance on the operating effectiveness of the FIRM’S controls or policies and procedures for complying with the GIPS standards; and
- g. A statement that the FIRM agrees to provide the verifier with a representation letter at the conclusion of the VERIFICATION.

The engagement letter SHOULD also include any other terms and conditions relevant to the VERIFICATION.

Required Verification Procedures

A VERIFICATION MUST be conducted in accordance with the REQUIRED VERIFICATION procedures of the GIPS standards. The following are the minimum procedures verifiers MUST perform when conducting a VERIFICATION. Verifiers MUST complete the VERIFICATION in accordance with these procedures prior to issuing a VERIFICATION REPORT to the FIRM.

Planning Procedures

The verifier MUST consider the following presumptions:

- Information obtained from independent parties (especially if obtained directly) provides greater assurance than information obtained from the FIRM;

- Information obtained from the verifier's direct personal knowledge (such as through tangible documentation, observation, computation, operating tests, or inspection) is more persuasive than information obtained indirectly; and
- The more effective the controls over the subject matter, the more assurance they provide.

The verifier **MUST** consider the following matters when designing test procedures:

- The nature and materiality of the information to be tested;
- The control environment (including the extent to which automated and manual processes are used);
- The likelihood of misstatements;
- Knowledge obtained during current and previous engagements;
- The extent to which the information is affected by judgment; and
- Inadequacies in the underlying data.

When conducting a VERIFICATION, the verifier **MUST** accumulate sufficient evidence and perform sufficient procedures such that the risk of not detecting errors during the VERIFICATION is mitigated to an acceptably low level.

Testing by inquiry on its own is insufficient to satisfy the REQUIRED VERIFICATION procedures. Verifiers **MUST** review sufficient and appropriate supporting documentation when performing VERIFICATION procedures.

A verifier may choose to rely on the audit and/or internal control work of a qualified and reputable independent third party. In addition, a verifier may choose to rely on other audit and/or internal control work it has provided to the FIRM. A verifier may also accept the VERIFICATION work of another verifier as part of the basis for the VERIFICATION REPORT. If the verifier plans to rely on work performed by another party, including other services performed by the verifier, then the scope of work—including period(s) covered, results of procedures performed, qualifications, competency, objectivity, and reputation of the other party—**MUST** be assessed by the verifier when determining whether to place any reliance on such work. Reliance considerations and conclusions **MUST** be documented by the verifier. The verifier **MUST** use professional skepticism when deciding whether to place reliance on work performed by another party.

Sample Selection

Verifiers **MUST** subject the entire FIRM to testing when performing VERIFICATION procedures. Verifiers may use a sampling methodology when performing such testing procedures. The verifier **MUST** determine not only the appropriate sample size but also if the sample selected is reasonable considering the FIRM's specific circumstances. The verifier **MUST** select samples from the entire period(s) being verified.

Verifiers **MUST** consider the following criteria when selecting samples:

- Number of COMPOSITES and POOLED FUNDS at the FIRM;
- Number of PORTFOLIOS in each COMPOSITE;
- COMPOSITE DEFINITIONS and POOLED FUND strategies;
- Legal structure of the POOLED FUND;
- COMPOSITE assets and POOLED FUND assets relative to TOTAL FIRM ASSETS;
- Internal control environment at the FIRM;
- Number of years being verified;
- Systems used in the construction and maintenance of COMPOSITES;
- Methodology and systems used for calculating and reporting performance; and
- The use of external service providers.

This list is not all-inclusive and contains only the minimum criteria that MUST be considered in the selection and evaluation of a sample. For example, one potentially useful approach would be to include in the sample a PORTFOLIO that has the largest effect on COMPOSITE performance because of its size. Missing or incomplete documents, or the presence of errors, would warrant selecting a larger sample or applying additional VERIFICATION procedures.

Testing Procedures

1. Recordkeeping: While conducting the REQUIRED testing procedures, verifiers MUST determine whether:
 - a. The FIRM has captured and maintained all data and information necessary to support all items included in GIPS REPORTS and GIPS ADVERTISEMENTS.
 - b. The data and information are readily available.
 - c. The data and information are sufficient to support the claim of compliance on a FIRM-wide basis.

Detailed examples of data and information that could be examined are provided in the Guidance Statement on Recordkeeping Requirements.

2. Policies and procedures: Verifiers MUST obtain the FIRM'S policies and procedures used in establishing and maintaining compliance with the GIPS standards. Verifiers MUST understand the FIRM'S policies and procedures for establishing and maintaining compliance with all the applicable REQUIREMENTS and adopted RECOMMENDATIONS of the GIPS standards. Verifiers MUST perform sufficient procedures to determine that:
 - a. The FIRM'S policies and procedures are consistent with the GIPS standards;
 - b. The FIRM'S policies and procedures are complete, clear, unambiguous, and adequately documented; and
 - c. The FIRM'S policies and procedures are suitably designed to enable the FIRM to comply with the GIPS standards.
3. FIRM definition: Verifiers MUST gain an understanding of the FIRM, including the corporate structure of the FIRM and how it operates. Verifiers MUST perform sufficient procedures to determine that the FIRM is, and has been, appropriately defined.
4. Lists of COMPOSITES and POOLED FUNDS: Verifiers MUST obtain the FIRM'S list of COMPOSITE DESCRIPTIONS, list of LIMITED DISTRIBUTION POOLED FUND DESCRIPTIONS, and list of BROAD DISTRIBUTION POOLED FUNDS and then perform sufficient procedures to determine that these lists are complete.
5. TOTAL FIRM ASSETS: For each annual period end within the period(s) being verified, verifiers MUST obtain:
 - A list of all PORTFOLIOS, with each PORTFOLIO'S value, that constitute TOTAL FIRM ASSETS.
 - A list of all PORTFOLIOS included in COMPOSITES.
 - A list of all SEGREGATED ACCOUNTS that are not included in any COMPOSITE.
 - A list of all POOLED FUNDS that are not included in any COMPOSITE.

Verifiers MUST select PORTFOLIOS from these lists and perform sufficient procedures to determine that:

- a. The list of all PORTFOLIOS that constitute TOTAL FIRM ASSETS, with each PORTFOLIO'S value, is complete.

- b. PORTFOLIOS included in COMPOSITES and other PORTFOLIOS not included in COMPOSITES are properly included in TOTAL FIRM ASSETS and have not been double-counted.
 - c. PORTFOLIOS included in TOTAL FIRM ASSETS are properly included in or excluded from COMPOSITES.
 - d. TOTAL FIRM ASSETS reflect only actual assets managed by the FIRM.
 - e. TOTAL FIRM ASSETS are calculated accurately and reflect all assets for which the FIRM has investment management responsibility.
6. PORTFOLIOS excluded from COMPOSITES: Verifiers MUST obtain a list of all PORTFOLIOS that are classified as non-discretionary and excluded from COMPOSITES during the period(s) being verified. Verifiers MUST select PORTFOLIOS from this list and perform sufficient procedures to determine that the FIRM'S classification of the PORTFOLIOS as non-discretionary is appropriate by referring to the PORTFOLIO'S investment mandate, objective, or strategy, as indicated by the PORTFOLIO'S investment management agreement, investment guidelines, and other appropriate documentation.
7. Assignment of PORTFOLIOS to COMPOSITES: Verifiers MUST obtain COMPOSITE membership details, including which PORTFOLIOS are included, with their returns and values, for all period(s) being verified. This information MUST include new, existing, and terminated PORTFOLIOS. Verifiers MUST select PORTFOLIOS from COMPOSITES and perform sufficient procedures to determine that:
- a. The FIRM has defined and maintained COMPOSITES in compliance with the GIPS standards.
 - b. The FIRM'S policies and procedures for creating and maintaining COMPOSITES have been consistently applied.
 - c. PORTFOLIOS included in COMPOSITES are properly classified as discretionary, as indicated by the PORTFOLIO'S investment management agreement, investment guidelines, PORTFOLIO summary, and other appropriate documentation.
 - d. The investment mandate, objective, or strategy of PORTFOLIOS included in COMPOSITES, as indicated by the PORTFOLIO'S investment management agreement, investment guidelines, PORTFOLIO summary, and other appropriate documentation, is consistent with the COMPOSITE DEFINITION.
 - e. PORTFOLIOS included in the same COMPOSITE share a similar investment mandate, objective, or strategy.
 - f. The timing of inclusion of new PORTFOLIOS in COMPOSITES is in accordance with the FIRM'S new PORTFOLIO policies and procedures.
 - g. The timing of exclusion of terminated PORTFOLIOS from COMPOSITES is in accordance with the FIRM'S terminated PORTFOLIO policies and procedures.
 - h. Movements of PORTFOLIOS from one COMPOSITE to another are appropriate; consistent with documented changes to a PORTFOLIO'S investment mandate, objective, or strategy or the redefinition of the COMPOSITE; and in accordance with the FIRM'S moved PORTFOLIO policies and procedures.
 - i. For COMPOSITES that have a COMPOSITE minimum asset level, and only for those COMPOSITES, PORTFOLIOS are included in and excluded from COMPOSITES in accordance with the FIRM'S minimum asset level policies and procedures.
 - j. For COMPOSITES that have a SIGNIFICANT CASH FLOW policy, and only for those COMPOSITES, PORTFOLIOS are included in and excluded from COMPOSITES in accordance with the FIRM'S SIGNIFICANT CASH FLOW policies and procedures.
 - k. For COMPOSITES that exclude non-fee-paying PORTFOLIOS, and only for those COMPOSITES, non-fee-paying PORTFOLIOS are excluded from COMPOSITES in accordance with the FIRM'S non-fee-paying PORTFOLIO policies and procedures.
8. Outlier Testing: Verifiers MUST perform sufficient procedures to determine that outlier returns within COMPOSITES do not indicate PORTFOLIO return or COMPOSITE assignment errors. Verifiers MUST:

- a. For a sample of COMPOSITES, review PORTFOLIO returns within the COMPOSITE, to identify PORTFOLIOS with returns that significantly deviate from the returns of other PORTFOLIOS within the COMPOSITE.
 - b. Select a sample of PORTFOLIOS with outlier returns and for each PORTFOLIO determine that:
 - i. There are no input data or PORTFOLIO return calculation errors relating to the outlier returns.
 - ii. The PORTFOLIO is properly included in the COMPOSITE.
9. Input Data Testing: For selected PORTFOLIOS, verifiers MUST perform sufficient procedures to determine that the treatment of the following items is consistent with the FIRM'S policies and procedures:
- a. Classification of PORTFOLIO flows (e.g., receipts, disbursements, dividends, interest, fees, expenses, and taxes);
 - b. Accounting treatment of dividend and interest income;
 - c. Accounting treatment of taxes, tax reclaims, and tax accruals;
 - d. Accounting treatment of TRANSACTION COSTS;
 - e. Accounting treatment of fees and expenses; and
 - f. Accounting treatment and valuation methodologies for investments.
10. Performance Based on Actual Assets: For selected PORTFOLIOS, verifiers MUST perform sufficient procedures to determine that PORTFOLIO holdings, income, and cash flows are supported by appropriate documents from independent external parties. Examples of these documents include custodian, fund accounting, and broker statements, as well as client subscription and redemption notifications. Verifiers SHOULD obtain appropriate documentation directly from independent external parties.
11. Performance Measurement: Verifiers MUST perform sufficient procedures to determine that the FIRM has calculated performance in accordance with the REQUIREMENTS of the GIPS standards and the FIRM'S policies and procedures. Verifiers MUST, for a sample of PORTFOLIOS and COMPOSITES, recalculate returns to determine that:
- a. An acceptable return formula as REQUIRED by the GIPS standards is used.
 - b. The FIRM'S calculations, including the treatment of any fees and expenses, are in accordance with the FIRM'S policies and procedures.
12. GIPS REPORTS: Verifiers MUST perform sufficient procedures on a sample of GIPS REPORTS to determine that each presentation includes all the numerical information and disclosures REQUIRED by the GIPS standards. If the FIRM'S policy is to include SUPPLEMENTAL INFORMATION, performance from a prior firm or affiliation, or custom BENCHMARKS in GIPS REPORTS, verifiers SHOULD include in this sample GIPS REPORTS that include such information.

For each GIPS REPORT selected for testing, verifiers MUST perform the following procedures:

- a. Test COMPOSITE, POOLED FUND, and BENCHMARK calculations to determine that all presented numerical information, including any RECOMMENDED information, (e.g., annual returns, three-year annualized STANDARD DEVIATION, ADDITIONAL RISK MEASURES, COMPOSITE INTERNAL DISPERSION, and other statistics):
 - i. Adheres to the REQUIREMENTS of the GIPS standards.
 - ii. Is accurate.
 - iii. Is consistent with the FIRM'S records and policies and procedures.
- b. If model INVESTMENT MANAGEMENT FEES are used to calculate NET-OF-FEES returns, or model TOTAL POOLED FUND FEES are used to calculate POOLED FUND net returns, perform testing to determine that returns calculated using model fees are equal to or lower than those that would have been calculated if actual fees had been used.

- c. Determine that the COMPOSITE or POOLED FUND BENCHMARK reflects the investment mandate, objective, or strategy of the COMPOSITE or POOLED FUND and, if the COMPOSITE or POOLED FUND does not have a BENCHMARK, that this is appropriate;
 - d. If a custom BENCHMARK or combination of multiple BENCHMARKS is used, test the BENCHMARK data used by the FIRM to determine that the calculation methodology has been correctly applied and the data used are consistent with the BENCHMARK disclosure in the GIPS REPORT.
 - e. Test BENCHMARK returns to determine that:
 - i. The BENCHMARK returns are consistent with the returns published by the index provider; and
 - ii. Only TOTAL RETURN indices are used.
 - f. Determine that TOTAL FIRM ASSETS presented in the GIPS REPORT or used in the calculation of COMPOSITE assets or POOLED FUND assets as a percentage of TOTAL FIRM ASSETS are consistent with TOTAL FIRM ASSETS tested in Step 5.
 - g. Review disclosures to determine that all REQUIRED disclosures are included and all disclosures are consistent with the FIRM'S records, and policies and procedures.
 - h. If the GIPS REPORT includes SUPPLEMENTAL INFORMATION, determine that the SUPPLEMENTAL INFORMATION:
 - i. Relates directly to the COMPOSITE or POOLED FUND.
 - ii. Is not misleading, is clearly not false, and is not otherwise prohibited to be presented.
 - iii. Is clearly labeled as SUPPLEMENTAL INFORMATION.
 - iv. Does not contradict or conflict with the REQUIRED or RECOMMENDED information in the GIPS REPORT.
 - v. Is not shown with greater prominence than the REQUIRED COMPOSITE or POOLED FUND information.
 - i. If the GIPS REPORT includes performance from a prior firm or affiliation that is linked to performance of the FIRM, and the linkage occurs during the period(s) being verified, determine that:
 - i. The REQUIREMENTS relating to investment decision makers, the decision-making process, and supporting records have been met.
 - ii. There is no break in performance between the performance from the prior firm or affiliation and the performance of the FIRM.
 - iii. COMPOSITE performance from a prior firm or affiliation includes all PORTFOLIOS that met the COMPOSITE DEFINITION at the prior firm or affiliation.
 - iv. POOLED FUND performance from a prior firm or affiliation represents the performance of the POOLED FUND from the prior firm or affiliation.
 - v. The GIPS REPORT includes REQUIRED disclosures about the linked ported performance.
13. Providing GIPS REPORTS: Verifiers MUST perform sufficient procedures to determine that:
- a. The FIRM has provided the appropriate GIPS COMPOSITE REPORT(S) to each PROSPECTIVE CLIENT and the appropriate GIPS POOLED FUND REPORT(S) to each LIMITED DISTRIBUTION POOLED FUND PROSPECTIVE INVESTOR.
 - b. Where a PROSPECTIVE CLIENT or LIMITED DISTRIBUTION POOLED FUND PROSPECTIVE INVESTOR remains a prospect for more than 12 months, an updated GIPS COMPOSITE REPORT or GIPS POOLED FUND REPORT, respectively, has been provided to the prospect at least once every 12 months.

Verifiers MUST select a sample of PROSPECTIVE CLIENTS and LIMITED DISTRIBUTION POOLED FUND PROSPECTIVE INVESTORS. For each selection, verifiers MUST review the information that was provided, to determine that the prospect received the REQUIRED GIPS REPORT(S).

14. Marketing Materials: Verifiers MUST inquire about the FIRM'S marketing practices, including whether the FIRM prepares GIPS ADVERTISEMENTS. Verifiers MUST select a sample of marketing

materials, including GIPS ADVERTISEMENTS, if applicable, and MUST perform the following procedures:

- a. For each selection of marketing material that includes a GIPS REPORT, verifiers MUST perform sufficient procedures to determine that:
 - i. The GIPS REPORT includes all information REQUIRED by the GIPS standards.
 - ii. The numerical information in the GIPS REPORT is accurate and consistent with the FIRM'S records as well as its policies and procedures.
 - iii. The disclosures in the GIPS REPORT are consistent with the FIRM'S records as well as its policies and procedures.
 - b. For each GIPS ADVERTISEMENT, verifiers MUST perform sufficient procedures to determine that:
 - i. The GIPS ADVERTISEMENT includes all information REQUIRED by the GIPS Advertising Guidelines.
 - ii. The numerical information is accurate and consistent with the FIRM'S records as well as its policies and procedures.
 - iii. The disclosures are consistent with the FIRM'S records as well as its policies and procedures.
 - c. For each selection of marketing material that is not a GIPS ADVERTISEMENT and does not include a GIPS REPORT, verifiers MUST perform sufficient procedures to determine that it does not include any improper references to the GIPS standards.
15. Error Correction: Verifiers MUST inquire about errors in GIPS REPORTS that have occurred in, were identified in, or affect the period(s) being verified. If errors have occurred, verifiers MUST select errors for testing and perform sufficient procedures to determine that:
- a. The FIRM'S errors have been treated in accordance with the FIRM'S error correction policies and procedures.
 - b. For MATERIAL ERRORS, the FIRM has provided the corrected GIPS REPORT to all existing clients and existing investors that received the erroneous GIPS REPORT, and the FIRM has made every reasonable effort to provide the corrected GIPS REPORT to all PROSPECTIVE CLIENTS, PROSPECTIVE INVESTORS, and other parties that received the erroneous GIPS REPORT.
16. Notification to CFA Institute: Verifiers MUST perform sufficient procedures to determine that the FIRM has notified CFA Institute of its claim of compliance with the GIPS standards by submitting the GIPS COMPLIANCE NOTIFICATION FORM.

Maintenance of Verifier Documentation

The verifier MUST maintain sufficient documentation of the following items for all VERIFICATION procedures performed that are necessary to support the VERIFICATION REPORT:

- a. The nature, timing, and extent of all procedures performed, including planning procedures, sample size rationale, sample selections, and testing procedures applied;
- b. The results of all procedures performed and the evidence obtained;
- c. Significant findings or issues arising during the VERIFICATION, the conclusions reached thereon, and any significant professional judgments made in reaching those conclusions; and
- d. Support that the verifier has conducted all REQUIRED VERIFICATION procedures.

Representation Letter

At the conclusion of the VERIFICATION engagement and prior to issuing the VERIFICATION REPORT, the verifier MUST obtain written representations signed by the FIRM's management who the verifier believes are responsible for and knowledgeable about the matters covered in the representations. The representation letter MUST include the following matters:

- The FIRM complies with the GIPS standards for all period(s) being verified;
- 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;
- The FIRM'S policies and procedures for complying with the GIPS standards have been designed in compliance with the GIPS standards and have been implemented on a FIRM-wide basis for all period(s) being verified;
- The FIRM is in compliance with the GIPS standards on a FIRM-wide basis;
- The FIRM, based on its policies and procedures, concludes that the verifier is independent from the FIRM;
- The FIRM'S management bears all responsibility for maintaining compliance with the GIPS standards, including production and distribution of all GIPS REPORTS;
- The GIPS REPORTS are a fair and honest representation of the FIRM'S investment performance;
- The FIRM has not knowingly presented performance or PERFORMANCE-RELATED INFORMATION that is false or misleading;
- To the best of the FIRM'S knowledge and belief, there has been no:
 - fraud or alleged fraud involving management or employees who have significant roles in the FIRM'S policies and procedures relating to compliance with the GIPS standards, or
 - fraud or alleged fraud involving others that could have a material effect on the FIRM'S compliance with the GIPS standards;
- 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 period(s) the verifier is reporting on;
- The FIRM complies with all applicable laws and regulations regarding the calculation and presentation of performance; and
- No events that would materially influence performance results or the outcome of the VERIFICATION have occurred up to the date of the representation letter.

The representation letter SHOULD also include any other relevant representations made to the verifier during the VERIFICATION.

GIPS Verification Report

The VERIFICATION REPORT MUST opine that the FIRM'S policies and procedures for complying with the GIPS standards with respect to COMPOSITE and POOLED FUND maintenance, as well as the calculation, presentation, and distribution of performance have been designed in compliance with the GIPS standards and have been implemented on a FIRM-wide basis for the period(s) for which the VERIFICATION has been performed.

The following information is also REQUIRED to be included in the VERIFICATION REPORT:

- The report title, which MUST include the word "verification";
- The report date;
- The report addressee;
- The defined FIRM for which the VERIFICATION has been performed;
- The period(s) for which the VERIFICATION has been performed;

- The respective responsibilities of the FIRM'S management and of the verifier, including a statement acknowledging the responsibility of the FIRM for the claim of compliance;
- 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 the verifier is independent from the FIRM;
- A statement indicating that the VERIFICATION provides no assurance on any specific performance report;
- A statement indicating that the VERIFICATION provides no assurance on the operating effectiveness of the FIRM'S controls or policies and procedures for complying with the GIPS standards;
- A statement describing any other professional guidance that has been applied (e.g., AICPA, IAASB, ICAEW, or JICPA guidance); and
- The signature or official seal of the verifier.

In addition to the REQUIRED content, the VERIFICATION REPORT may also include other information, as appropriate.

After completing the VERIFICATION procedures, the verifier may conclude that the FIRM is not in compliance with the GIPS standards or that the records of the FIRM cannot support a VERIFICATION. In such situations, the verifier MUST inform the FIRM why a VERIFICATION REPORT could not be issued. A VERIFICATION REPORT MUST NOT be issued when the verifier knows that the FIRM is not in compliance with the GIPS standards or the records of the FIRM cannot support a VERIFICATION.

The FIRM MUST NOT state that it has been verified unless a VERIFICATION REPORT has been issued.

Recommendation Letter

After the VERIFICATION is complete, the verifier SHOULD issue a recommendation letter to the FIRM describing specific findings, recommendations, and other areas for improvement arising from the VERIFICATION.

PERFORMANCE EXAMINATION

Purpose and Scope of Performance Examination

In addition to VERIFICATION, a FIRM may choose to also have a PERFORMANCE EXAMINATION of a specific COMPOSITE or POOLED FUND. The detailed testing of any of the FIRM's COMPOSITES or POOLED FUNDS and their associated GIPS REPORTS by an independent verifier is called a PERFORMANCE EXAMINATION.

A PERFORMANCE EXAMINATION may only be performed either concurrently with, or subsequent to the completion of, a VERIFICATION. The FIRM MUST be verified for the period(s) covered by the PERFORMANCE EXAMINATION REPORT. The VERIFICATION and the PERFORMANCE EXAMINATION need not be performed by the same verifier. The PERFORMANCE EXAMINATION MUST be performed by a qualified independent third party. Please see the Guidance Statement on Verifier Independence for additional guidance.

A PERFORMANCE EXAMINATION is not REQUIRED for a FIRM to be verified and is neither RECOMMENDED nor REQUIRED under the GIPS standards. However, a FIRM may be asked or may choose to obtain a PERFORMANCE EXAMINATION of one or more of the FIRM's COMPOSITES or POOLED FUNDS.

A PERFORMANCE EXAMINATION tests, for a specific COMPOSITE:

- a. Whether the FIRM has constructed the COMPOSITE and calculated the COMPOSITE performance in compliance with the GIPS standards, and
- b. Whether the FIRM has prepared and presented the GIPS COMPOSITE REPORT in compliance with the GIPS standards.

A PERFORMANCE EXAMINATION tests, for a specific POOLED FUND:

- a. Whether the FIRM has calculated the POOLED FUND performance in compliance with the GIPS standards, and
- b. Whether the FIRM has prepared and presented the GIPS POOLED FUND REPORT in compliance with the GIPS standards.

ASSET OWNERS may also choose to have a PERFORMANCE EXAMINATION for any TOTAL FUND or COMPOSITE. The Exposure Draft of the 2020 GIPS Standards for Verifiers does not include PERFORMANCE EXAMINATION guidance specific to ASSET OWNERS. When considering this guidance for conducting a PERFORMANCE EXAMINATION for an ASSET OWNER, verifiers MUST interpret references to FIRMS as also referring to ASSET OWNERS, and they MUST interpret references to COMPOSITES as also referring to TOTAL FUNDS and additional COMPOSITES. Verifiers that conduct PERFORMANCE EXAMINATIONS for ASSET OWNERS MUST follow the REQUIRED PERFORMANCE EXAMINATION procedures to the extent possible, and they MUST tailor these procedures to fit the unique facts and circumstances of the ASSET OWNER. Verifiers MUST document their rationale for their testing approach, including why any REQUIRED PERFORMANCE EXAMINATION procedure was modified or not appropriate.

Agreeing on the Terms of the Engagement

Prior to commencing the engagement, the verifier **MUST** agree on the terms of the **PERFORMANCE EXAMINATION** with the **FIRM**. The agreed terms **MUST** be specified in an engagement letter or other suitable form of written agreement and **MUST** include the following:

- a. The objective and scope of the engagement, including the period(s) being examined;
- b. The responsibilities of the verifier;
- c. The responsibilities of the **FIRM**;
- d. A statement about the inherent limitations of a **PERFORMANCE EXAMINATION**;
- e. A statement that the **GIPS** standards are the evaluation criteria for the engagement; and
- f. A statement that the **FIRM** agrees to provide the verifier with a representation letter at the conclusion of the **PERFORMANCE EXAMINATION**.

The engagement letter **SHOULD** also include any other terms and conditions relevant to the **PERFORMANCE EXAMINATION**.

Required Performance Examination Procedures

A **PERFORMANCE EXAMINATION** **MUST** be conducted in accordance with the **REQUIRED PERFORMANCE EXAMINATION** procedures of the **GIPS** standards. The following are the minimum procedures verifiers **MUST** perform when conducting a **PERFORMANCE EXAMINATION**. Verifiers **MUST** complete the **PERFORMANCE EXAMINATION** in accordance with these procedures prior to issuing a **PERFORMANCE EXAMINATION REPORT** to the **FIRM**.

Planning Procedures

The verifier **MUST** consider the following presumptions:

- Information obtained from independent parties (particularly if obtained directly) provides greater assurance than the same information obtained from the **FIRM**;
- Information obtained from the verifier's direct personal knowledge (such as through tangible documentation, observation, computation, operating tests, or inspection) is more persuasive than information obtained indirectly; and
- The more effective the controls over the subject matter, the more assurance they provide.

The verifier **MUST** consider the following matters when designing test procedures:

- The nature and materiality of the information to be tested;
- The control environment (including the extent to which automated and manual processes are used);
- The likelihood of misstatements;
- Knowledge obtained during current and previous engagements;
- The extent to which the information is affected by judgment; and
- Inadequacies in the underlying data.

When conducting a **PERFORMANCE EXAMINATION**, the verifier **MUST** accumulate sufficient evidence and perform sufficient procedures such that the risk of not detecting errors during the **PERFORMANCE EXAMINATION** is mitigated to an acceptably low level.

Testing by inquiry on its own is insufficient to satisfy the **REQUIRED PERFORMANCE EXAMINATION** procedures. Verifiers **MUST** review sufficient and appropriate supporting documentation when performing **PERFORMANCE EXAMINATION** procedures.

A verifier may choose to rely on the audit and/or internal control work of a qualified and reputable independent third party. In addition, a verifier may choose to rely on other audit and/or internal control work it has provided to the FIRM. A verifier may also accept the VERIFICATION work of another verifier as part of the basis for the verifier's PERFORMANCE EXAMINATION REPORT. If the verifier plans to rely on work performed by another party, including other services performed by the verifier, then the scope of work—including period(s) covered, results of procedures performed, qualifications, competency, objectivity, and reputation of the other party—MUST be assessed by the verifier when determining whether to place any reliance on such work. Reliance considerations and conclusions MUST be documented by the verifier. The verifier MUST use professional skepticism when deciding whether to place reliance on work performed by another party.

Sample Selection: Composites

Verifiers MUST subject the entire COMPOSITE to testing when conducting PERFORMANCE EXAMINATION procedures. Verifiers may use a sampling methodology when performing such testing procedures. The verifier MUST determine not only the appropriate sample size but also if the sample selected is reasonable considering the FIRM'S specific circumstances. The verifier MUST select samples from the entire period(s) being examined.

Verifiers MUST consider the following criteria when selecting samples:

- Number of PORTFOLIOS in the COMPOSITE;
- COMPOSITE definition;
- Individual PORTFOLIO assets relative to total COMPOSITE assets;
- Internal control environment at the FIRM;
- Number of years being examined;
- Systems used in the construction and maintenance of COMPOSITES;
- Methodology and systems used for calculating and reporting performance; and
- The use of external service providers.

This list is not all-inclusive and contains only the minimum criteria that MUST be considered in the selection and evaluation of a sample. For example, one potentially useful approach for a COMPOSITE PERFORMANCE EXAMINATION would be to include in the sample a PORTFOLIO that has the largest effect on COMPOSITE performance because of its size. Missing or incomplete documents, or the presence of errors, would warrant selecting a larger sample or applying additional PERFORMANCE EXAMINATION procedures.

Sample Selection: Pooled Funds

Verifiers MUST subject the entire POOLED FUND track record covered by the PERFORMANCE EXAMINATION to testing when conducting PERFORMANCE EXAMINATION procedures. Verifiers may use a sampling methodology when performing such testing procedures. The verifier MUST determine not only the appropriate sample size but also if the sample selected is reasonable considering the FIRM'S specific circumstances. The verifier MUST select samples from the entire period(s) being examined.

Verifiers MUST consider the following criteria when selecting samples:

- POOLED FUND strategy and legal structure;
- Internal control environment at the FIRM;
- Number of years being examined;
- Methodology and systems used for calculating and reporting performance; and
- The use of external service providers.

This list is not all-inclusive and contain only the minimum criteria that MUST be considered in the selection and evaluation of a sample. Missing or incomplete documents, or the presence of errors, would warrant selecting a larger sample or applying additional PERFORMANCE EXAMINATION procedures.

Testing Procedures

1. Recordkeeping: While conducting the REQUIRED testing procedures, verifiers MUST determine whether:
 - a. The FIRM has captured and maintained all data and information necessary to support all items included in the GIPS REPORT.
 - b. The data and information are readily available.

Detailed examples of data and information that could be examined are provided in the Guidance Statement on Recordkeeping Requirements.

2. Policies and procedures: Verifiers MUST obtain the FIRM'S policies and procedures used in establishing and maintaining compliance with the GIPS standards that are relevant to the examined COMPOSITE or POOLED FUND. Verifiers MUST understand the FIRM'S policies and procedures for establishing and maintaining compliance with all the applicable REQUIREMENTS and adopted RECOMMENDATIONS of the GIPS standards that are relevant to the examined COMPOSITE or POOLED FUND. Verifiers MUST perform sufficient procedures to determine that, with respect to the examined COMPOSITE or POOLED FUND:
 - a. The FIRM'S policies and procedures are consistent with the GIPS standards;
 - b. The FIRM'S policies and procedures are complete, clear, unambiguous, and adequately documented; and
 - c. The FIRM'S policies and procedures are suitably designed to enable the FIRM to:
 - i. Construct the COMPOSITE, calculate COMPOSITE performance, and prepare and present the GIPS COMPOSITE REPORT in compliance with the GIPS standards; or
 - ii. Calculate POOLED FUND performance and prepare and present the GIPS POOLED FUND REPORT in compliance with the GIPS standards.
3. FIRM definition: Verifiers MUST gain an understanding of the FIRM, including the corporate structure of the FIRM and how it operates.
4. Assignment of PORTFOLIOS to COMPOSITES (COMPOSITES only): The verifier MUST obtain a list of all open (both new and existing) and terminated PORTFOLIOS for the COMPOSITE for the period(s) under examination, including each PORTFOLIO'S returns and values, and perform sufficient procedures to determine, for the examined COMPOSITE, that:
 - a. The FIRM has defined and maintained the COMPOSITE in compliance with the GIPS standards.
 - b. The FIRM'S policies and procedures for creating and maintaining the COMPOSITE have been consistently applied.
 - c. PORTFOLIOS included in the COMPOSITE are properly classified as discretionary, as indicated by the PORTFOLIO'S investment management agreement, investment guidelines, PORTFOLIO summary, and other appropriate documentation.
 - d. The investment mandate, objective, or strategy of PORTFOLIOS included in the COMPOSITE, as indicated by the PORTFOLIO'S investment management agreement, investment guidelines, PORTFOLIO summary, and other appropriate documentation, is consistent with the COMPOSITE DEFINITION.
 - e. The timing of inclusion of new PORTFOLIOS in the COMPOSITE is in accordance with the FIRM'S new PORTFOLIO policies and procedures.
 - f. The timing of exclusion of terminated PORTFOLIOS from the COMPOSITE is in accordance with the FIRM'S terminated PORTFOLIO policies and procedures.

- g. Movements of PORTFOLIOS into and out of the COMPOSITE are appropriate, consistent with documented changes to a PORTFOLIO'S investment mandate, objective, or strategy or the redefinition of the COMPOSITE, and in accordance with the FIRM'S moved PORTFOLIO policies and procedures.
 - h. If the COMPOSITE has a COMPOSITE minimum asset level, PORTFOLIOS are included in and excluded from the COMPOSITE in accordance with the FIRM'S minimum asset level policies and procedures.
 - i. If the COMPOSITE has a SIGNIFICANT CASH FLOW policy, PORTFOLIOS are included in and excluded from the COMPOSITE in accordance with the FIRM'S SIGNIFICANT CASH FLOW policies and procedures.
 - j. If the COMPOSITE excludes non-fee-paying PORTFOLIOS, non-fee-paying PORTFOLIOS are excluded from the COMPOSITE in accordance with the FIRM'S non-fee-paying PORTFOLIO policies and procedures.
5. Outlier testing (COMPOSITES only): Verifiers MUST perform sufficient procedures to determine that outlier returns within the examined COMPOSITE do not indicate PORTFOLIO return or COMPOSITE assignment errors. Verifiers MUST:
- a. Review PORTFOLIO returns within the examined COMPOSITE, to identify PORTFOLIOS with returns that significantly deviate from the returns of other PORTFOLIOS within the COMPOSITE.
 - b. Select all PORTFOLIOS with outlier returns and for each PORTFOLIO MUST determine that:
 - i. There are no input data or PORTFOLIO return calculation errors relating to the outlier returns.
 - ii. The PORTFOLIO is properly included in the examined COMPOSITE.
6. EXTERNAL CASH FLOWS: Verifiers MUST determine that EXTERNAL CASH FLOWS for PORTFOLIOS in the examined COMPOSITE or for the examined POOLED FUND are:
- Properly recorded in PORTFOLIOS;
 - Recorded at the correct amounts;
 - Properly identified as large (as defined by the FIRM'S policies and procedures); and
 - Recorded on a timely basis in accordance with the FIRM'S policies and procedures.

Verifiers MUST perform sufficient procedures to determine that:

- a. EXTERNAL CASH FLOWS reflect appropriate supporting documentation, such as custody statements, client subscription and redemption notifications, or internal records;
 - b. EXTERNAL CASH FLOWS reflect proper valuation and timely recording; and
 - c. The recording of EXTERNAL CASH FLOWS is appropriate and in accordance with the FIRM'S policies and procedures.
7. Income and expenses: Verifiers MUST determine that income and expenses for PORTFOLIOS in the examined COMPOSITE or for the examined POOLED FUND are:
- Properly recorded in PORTFOLIOS;
 - Recorded at the correct amounts; and
 - Recorded on a timely basis.

Verifiers MUST perform sufficient procedures to determine that the treatment of the following items is consistent with the FIRM'S policies and procedures:

- a. Classification of PORTFOLIO flows (e.g., receipts, disbursements, dividends, interest, fees, expenses, and taxes);
- b. Accounting treatment of dividend and interest income;
- c. Accounting treatment of taxes, tax reclaims, and tax accruals;
- d. Accounting treatment of TRANSACTION COSTS;
- e. Accounting treatment of fees and expenses; and
- f. Accounting treatment and valuation methodologies for investments.

8. PORTFOLIO valuation: Verifiers MUST determine that investments, including derivatives, for PORTFOLIOS in the examined COMPOSITE or for the examined POOLED FUND are:
 - Valued correctly; and
 - Valued on the correct dates.

Verifiers MUST perform sufficient procedures to determine that:

- a. PORTFOLIO holdings are complete and accurate, as well as consistent with appropriate documentation such as custody statements and reconciliations;
 - b. Investment valuations are in accordance with the FIRM'S valuation policies and procedures, as well as the GIPS valuation REQUIREMENTS;
 - c. PORTFOLIOS are valued on the date of all large cash flows in accordance with the FIRM'S policies and procedures;
 - d. Foreign currency exchange rates are in accordance with the FIRM'S valuation policies; and
 - e. The method(s) used for PORTFOLIO valuation are consistently applied.
9. Performance based on actual assets: For the examined COMPOSITE or POOLED FUND, verifiers MUST perform sufficient procedures to determine that PORTOLIO holdings, income, and cash flows are supported by appropriate documents from independent external parties. Examples of these documents include custodian, fund accounting, and broker statements, as well as client subscription and redemption notifications. Verifiers SHOULD obtain appropriate documentation directly from independent external parties.
 10. Performance measurement: Verifiers MUST perform sufficient procedures to determine that the FIRM has calculated performance in accordance with the REQUIREMENTS of the GIPS standards and the FIRM'S policies and procedures. Verifiers MUST, for a sample of PORTFOLIO and COMPOSITE returns, recalculate returns to determine that:
 - a. An acceptable return formula as REQUIRED by the GIPS standards is used.
 - b. The FIRM'S calculations, including the treatment of any fees and expenses, are in accordance with the FIRM'S policies and procedures.
 11. GIPS REPORTS: Verifiers MUST perform sufficient procedures on the GIPS REPORT for the examined COMPOSITE or POOLED FUND to determine that the presentation includes all the numerical information and disclosures REQUIRED by the GIPS standards and that any other information included beyond the REQUIRED information is appropriate.

Verifiers MUST perform the following procedures:

- a. Test COMPOSITE, POOLED FUND, and BENCHMARK calculations to determine that all presented numerical information, including any RECOMMENDED information (e.g., annual returns, three-year annualized STANDARD DEVIATION, ADDITIONAL RISK MEASURES, COMPOSITE INTERNAL DISPERSION, and other statistics):
 - i. Adheres to the REQUIREMENTS of the GIPS standards.
 - ii. Is accurate.
 - iii. Is consistent with the FIRM'S records and its policies and procedures.
- b. If model INVESTMENT MANAGEMENT FEES are used to calculate NET-OF-FEES returns, or model TOTAL POOLED FUND FEES are used to calculate POOLED FUND net returns, perform testing to determine that returns calculated using model fees are equal to or lower than those that would have been calculated if actual fees had been used.
- c. Determine that the COMPOSITE or POOLED FUND BENCHMARK reflects the investment mandate, objective, or strategy of the COMPOSITE or POOLED FUND and, if the COMPOSITE or POOLED FUND does not have a BENCHMARK, that this is appropriate;
- d. If a custom BENCHMARK or combination of multiple BENCHMARKS is used, test the BENCHMARK data used by the FIRM to determine that the calculation methodology has been correctly applied and the data used are consistent with the BENCHMARK disclosure in the GIPS REPORT.
- e. Test BENCHMARK returns to determine that:

Maintenance of Verifier Documentation

The verifier **MUST** maintain sufficient documentation of the following items for all **PERFORMANCE EXAMINATION** procedures performed that are necessary to support the **PERFORMANCE EXAMINATION REPORT**:

- a. The nature, timing, and extent of all procedures performed, including planning procedures, sample size rationale, sample selections, and testing procedures applied;
- b. The results of all procedures performed and the evidence obtained;
- c. Significant findings or issues arising during the **PERFORMANCE EXAMINATION**, the conclusions reached thereon, and any significant professional judgments made in reaching those conclusions; and
- d. Support that the verifier has conducted all **REQUIRED PERFORMANCE EXAMINATION** procedures.

Representation Letter

At the conclusion of the **PERFORMANCE EXAMINATION** engagement and prior to issuing the **PERFORMANCE EXAMINATION REPORT**, the verifier conducting the **PERFORMANCE EXAMINATION** **MUST** obtain written representations signed by the **FIRM'S** management who the verifier believes are responsible for and knowledgeable about the matters covered in the representations. The representation letter **MUST** include the following matters:

- The **FIRM** complies with the **GIPS** standards for all period(s) being examined;
- 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;
- The **FIRM'S** policies and procedures for complying with the **GIPS** standards have been designed in compliance with the **GIPS** standards and have been implemented on a **FIRM-wide** basis for all period(s) being examined;
- The **FIRM** is in compliance with the **GIPS** standards on a **FIRM-wide** basis;
- The **FIRM** has constructed the **COMPOSITE** and calculated the **COMPOSITE** performance in compliance with the **GIPS** standards, or the **FIRM** has calculated the **POOLED FUND'S** performance in compliance with the **GIPS** standards;
- The **FIRM** has prepared and presented the **GIPS COMPOSITE REPORT** or **GIPS POOLED FUND REPORT** in compliance with the **GIPS** standards;
- The **FIRM**, based on its policies, concludes that the verifier is independent from the **FIRM**.
- The **FIRM'S** management bears all responsibility for maintaining compliance with the **GIPS** standards, including production and distribution of the **GIPS COMPOSITE REPORT** or **GIPS POOLED FUND REPORT**;
- The **GIPS COMPOSITE REPORT** or **GIPS POOLED FUND REPORT** is a fair and accurate representation of the **FIRM'S** investment performance;
- The **FIRM** has not knowingly presented performance or **PERFORMANCE-RELATED INFORMATION** for the examined **COMPOSITE** or **POOLED FUND** that is false or misleading;
- To the best of the **FIRM'S** knowledge and belief, there has been no:
 - fraud or alleged fraud involving management or employees who have significant roles in the **FIRM'S** policies and procedures relating to compliance with the **GIPS** standards, or
 - fraud or alleged fraud involving others that could have a material effect on the **FIRM'S** compliance with the **GIPS** standards;
- The **FIRM** has provided the verifier with all necessary documents to be able to perform the **PERFORMANCE EXAMINATION**, and no relevant documents have been withheld;
- The period(s) the verifier is reporting on;
- The **FIRM** complies with all applicable laws and regulations regarding the calculation and presentation of performance for the examined **COMPOSITE** or **POOLED FUND**; and

- No events that would materially influence performance results or the outcome of the PERFORMANCE EXAMINATION have occurred up to the date of the representation letter.

The representation letter SHOULD also include any other relevant representations made to the verifier during the PERFORMANCE EXAMINATION.

Performance Examination Report

If PERFORMANCE EXAMINATIONS are performed on multiple COMPOSITES or POOLED FUNDS and their associated GIPS REPORTS, the verifier may issue a single PERFORMANCE EXAMINATION REPORT covering the COMPOSITES or POOLED FUNDS and their associated GIPS REPORTS that have been examined. The PERFORMANCE EXAMINATION REPORT can be prepared either as part of a VERIFICATION REPORT (combined report) or as a separate report attached to the VERIFICATION REPORT. The GIPS REPORT for any COMPOSITE or POOLED FUND that has been examined MUST be included in or attached to the PERFORMANCE EXAMINATION REPORT.

- 1) In order for a PERFORMANCE EXAMINATION REPORT to be issued, the verifier MUST ensure that the FIRM has received a VERIFICATION REPORT(S) covering the period(s) being examined.
- 2) A PERFORMANCE EXAMINATION REPORT MUST NOT cover period(s) beyond those period(s) covered by the VERIFICATION REPORT(S). A PERFORMANCE EXAMINATION REPORT MUST NOT be issued prior to the VERIFICATION REPORT.
- 3) Because a VERIFICATION is REQUIRED in order to receive a PERFORMANCE EXAMINATION, information about the defined FIRM and the VERIFICATION period is REQUIRED to be included in the PERFORMANCE EXAMINATION REPORT.
- 4) For a COMPOSITE, the PERFORMANCE EXAMINATION REPORT MUST opine that:
 - The FIRM has constructed the COMPOSITE and calculated the COMPOSITE performance in compliance with the GIPS standards; and
 - The FIRM has prepared and presented the GIPS COMPOSITE REPORT in compliance with the GIPS standards.

For a POOLED FUND, the PERFORMANCE EXAMINATION REPORT MUST opine that:

- The FIRM has calculated the POOLED FUND performance in compliance with the GIPS standards, and
- The FIRM has prepared and presented the GIPS POOLED FUND REPORT in compliance with the GIPS standards.

The following information is also REQUIRED to be included in the PERFORMANCE EXAMINATION REPORT:

- The report title, which MUST include the words “performance examination”;
- The report date;
- The report addressee;
- The defined FIRM for which the VERIFICATION has been performed;
- The period(s) for which the VERIFICATION has been performed;
- The respective responsibilities of the FIRM’S management and of the verifier, including a statement acknowledging the responsibility of the FIRM for the claim of compliance and for the preparation of the GIPS COMPOSITE REPORT or GIPS POOLED FUND REPORT;
- The period(s) for which the PERFORMANCE EXAMINATION has been performed;
- For COMPOSITES:
 - The name of the COMPOSITE that has been examined;

- A statement indicating that the PERFORMANCE EXAMINATION of the specified COMPOSITE and its associated GIPS COMPOSITE REPORT has been performed in accordance with the REQUIRED PERFORMANCE EXAMINATION procedures of the GIPS standards;
- For POOLED FUNDS:
 - The name of the POOLED FUND that has been examined;
 - A statement indicating that the PERFORMANCE EXAMINATION of the specified POOLED FUND and its associated GIPS POOLED FUND REPORT has been performed in accordance with the REQUIRED PERFORMANCE EXAMINATION procedures of the GIPS standards;
- A statement indicating that the verifier is independent from the FIRM;
- A statement indicating that the PERFORMANCE EXAMINATION does not provide assurance on any other specific COMPOSITE or POOLED FUND performance report;
- A statement indicating whether or not the PERFORMANCE EXAMINATION covers SUPPLEMENTAL INFORMATION included in the GIPS COMPOSITE REPORT or GIPS POOLED FUND REPORT, if applicable;
- A statement describing any other professional guidance that has been applied (e.g., AICPA, IAASB, ICAEW, or JICPA guidance); and
- The signature or official seal of the verifier.

In addition to the REQUIRED content, the PERFORMANCE EXAMINATION REPORT may also include other information, as appropriate.

- 5) After completing the PERFORMANCE EXAMINATION procedures, the verifier may conclude that the GIPS REPORT does not comply with the GIPS standards or that the records of the FIRM cannot support the PERFORMANCE EXAMINATION. In such situations, the verifier and the FIRM MUST consider the effect of the verifier's inability to issue the PERFORMANCE EXAMINATION REPORT on the FIRM'S claim of compliance with the GIPS standards. A PERFORMANCE EXAMINATION REPORT MUST NOT be issued when the verifier knows that the FIRM is not in compliance with the GIPS standards, the GIPS REPORT does not comply with the GIPS standards, or the records of the FIRM cannot support the examination of the specific COMPOSITE or POOLED FUND and its associated GIPS REPORT. When a PERFORMANCE EXAMINATION REPORT cannot be issued, the verifier MUST inform the FIRM why a PERFORMANCE EXAMINATION REPORT cannot be issued.
- 6) The FIRM MUST NOT state that a COMPOSITE or POOLED FUND has been examined unless a PERFORMANCE EXAMINATION REPORT has been issued.

Recommendation Letter

After the PERFORMANCE EXAMINATION is complete, the verifier SHOULD issue a recommendation letter to the FIRM describing specific findings, recommendations, and other areas for improvement arising from the PERFORMANCE EXAMINATION.