



# CFA Institute<sup>®</sup>

## Global Investment Performance Standards

### SUGGESTED QUESTIONS FOR PROSPECTIVE VERIFICATION FIRMS



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# SUGGESTED QUESTIONS FOR PROSPECTIVE VERIFICATION FIRMS

The Global Investment Performance Standards (GIPS®) are ethical standards used by asset owners for calculating and presenting investment performance based on the principles of fair representation and full disclosure.

Verification is intended to provide an asset owner and its oversight body additional confidence in the asset owner's claim of compliance with the GIPS standards. Verification may increase the knowledge of the asset owner's performance measurement team and improve the consistency and quality of the asset owner's GIPS standards-related performance information. Verification may also result in improved internal policies and procedures.

The GIPS standards recommend that asset owners be verified. Verification brings additional credibility to the claim of compliance and supports the overall guiding principles of full disclosure and fair representation of an asset owner's investment performance. In defining the minimum required verification procedures, the GIPS standards governing bodies considered the cost and effort that asset owners must undertake to be verified.

This document was created to assist asset owners in their selection of a verifier, and includes suggested questions that may be helpful when considering prospective verification firms. This document is intended to be a starting point for discussions and may include questions that are not appropriate for all asset owners or that may need to be tailored. Similarly, all questions that should be asked by a specific asset owner may not be included in this document.

In the following questions, firm refers to the verification firm.

This document includes questions from the following seven areas:

1. Verification Firm Overview and Summary of Offered Services
2. Approach to the Verification Process
3. Specific Verification Experience
4. Engagement Team Members
5. Client References
6. Fees
7. Preparing for Verification

# 1. VERIFICATION FIRM OVERVIEW AND SUMMARY OF OFFERED SERVICES

A. Describe your firm's experience in the investment management industry.

*(This will help the asset owner understand the verifier's background and knowledge of the investment management industry.)*

B. Describe your firm's verification business including the approximate number of verification clients, including how many clients are asset owners, and an overview of your firm's history as a verification service provider. Also provide the number of verification clients that your firm has lost in the last three years, including information about the reason(s) for any losses.

*(This helps the asset owner understand the verifier's position in the market place. Furthermore, knowledge of the verifier's experience and background will help the asset owner determine the credibility of a potential verifier.)*

C. What differentiates your firm from your firm's competitors?

*(This will help the asset owner understand the verifier's unique selling points.)*

D. Describe the verification and other investment performance related services that your firm offers.

*(This demonstrates the range of services available to the asset owner, who may be keen to ensure that their verifiers are capable of offering them all of the services that they require.)*

E. How does your firm stay current with significant industry issues and changes, including updates to the GIPS standards? How does your firm communicate these issues and changes to your verification clients?

*(This demonstrates that the verifier is committed to keeping abreast of new developments in the industry and that they communicate such issues to their clients effectively.)*

F. Describe any professional guidance (e.g. AICPA, IAASB, ICAEW, JICPA) that will be applied in performing the engagement.

*(This will help the asset owner understand any professional guidance the verifier must adhere to.)*

G. What type of training related to the GIPS standards and other performance topics can your firm provide?

*(This demonstrates how the asset owner can benefit from the experience and training of their verifiers.)*

H. Has your firm been the subject of any lawsuits or regulatory/professional investigations relating to GIPS standards verifications, performance examinations, or performance-related services during the past [X] years? If yes, explain.

*(This will help the asset owner understand the verifier's history with lawsuits or regulatory/professional investigations.)*

## 2. APPROACH TO THE VERIFICATION PROCESS

- A. Describe your firm's verification approach.

*(This should give the asset owner a clear overview of how the prospective verifier approaches the verification and what aspects they feel are key to the process.)*

- B. How does your firm ensure the verification approach is consistent throughout your firm?

*(This shows how the verifier will use the same approach across the verification firm.)*

- C. Describe how your firm would structure and manage the verification including whether the verification is performed onsite, offsite, or a combination of both.

*(This will help the asset owner understand how the verification will be organized.)*

- D. What reliance does your firm place on any verification, audit, regulatory, or other work that has already been carried out by your firm or by others?

*(This will enable the asset owner to judge how the verifier will place reliance on verification, audit, regulatory, or other work, if any, that their firm or another verifier may already have undertaken at the asset owner.)*

- E. Describe the types of testing your firm normally employs during both initial and subsequent verifications.

*(This will help the asset owner understand how the testing might change between the current and subsequent years.)*

- F. Outline the most common problems and issues that your firm encounters during verifications and how they are resolved.

*(This will help the asset owner understand where common issues/problems occur during verifications. Asset owners can then apply this knowledge to their own organization.)*

- G. What would your firm do if documentation for some periods was not as complete as other periods?

*(These questions are of particular importance if an asset owner is being verified for a period of time during which their records may not be as complete as they would like. For example, an asset owner wishing to be verified for 10 years may have sufficient documentation to support 9 years, with the 10th year missing some documents that had been misplaced. The verifier may find that the asset owner is able to demonstrate alternate sources of evidence to support the performance record other than through the usual supporting evidence.)*

- H. Will your firm outsource any aspects of the verification? If yes, please describe the outsourcing arrangements.

*(This will help the asset owner understand if any verification work will be outsourced.)*

- I. How would your firm deal with any issues where we disagree?

*(This will help the asset owner understand what steps the verifier will take to address issues on which the verifier and the asset owner might disagree.)*

- J. Describe your firm's policies and procedures for maintaining and monitoring independence from your firm's verification clients. Are there any known independence issues between our organizations that you wish to bring to our attention? If so, please provide details.

*(This will help the asset owner understand the thoroughness of the verifier's independence policies and procedures.)*

- K. How does your firm ensure that data are protected and confidentiality is maintained at all times?

*(This question may be particularly important in certain environments. This will allow the asset owner to understand the verifier's procedures related to data security and confidentiality.)*

- L. Describe your firm's approach to issuing observations and recommendations resulting from the verification.

*(This demonstrates the ability of a verifier to bring added value to the verification processes.)*

### 3. SPECIFIC VERIFICATION EXPERIENCE

- A. Provide details of your experience in verifying clients with XX (named investment types, and/or asset classes such as Private Equity, Fund of Funds, Real Estate, etc.)

*(This question is particularly important for asset owners who manage investments where specialized expertise may be needed. The asset owner may ask for examples of the verifier's experience with other clients in order to judge how their own investments would be tested during the verification. This question enables the verifier to demonstrate their understanding of certain types of investments that may be important to the verification process.)*

- B. Describe what experience your firm has with (name the asset owner's portfolio accounting system, the composite maintenance system, and other relevant systems.)

*(This question will demonstrate to the asset owner whether the verifier already has a good understanding of their particular systems, and how they may be able to rely on the systems and efficiently test those systems.)*

### 4. ENGAGEMENT TEAM MEMBERS

- A. Provide information on the engagement team members, such as verification experience, investment industry knowledge, and any professional designations. Also, describe your firm's approach to maintaining continuity of the engagement team.

*(This question demonstrates the experience, knowledge, and strength of the verifier's team, and the verifier's commitment to ensuring verification team continuity.)*

- B. Describe the training your firm provides to engagement team members on the GIPS standards and the verification process.

*(This helps to assess whether the engagement team has the sufficient knowledge needed to perform a verification.)*

- C. Describe the ethics training your firm provides to engagement team members. Does your firm have a Code of Conduct that all members of the firm must adhere to?

*(Ethics training and documents such as a Code of Conduct help assess whether the verifier*

*promotes and adheres to high standards of ethics, integrity, and professional excellence.)*

- D. Demonstrate how your firm has participated in verification industry organizations, thought leadership, standards development, and associations.

*(This demonstrates if the verifier keeps abreast of new developments with the GIPS standards and investment performance, and if the verifier is committed to supporting the development of the GIPS standards.)*

## 5. CLIENT REFERENCES

- A. Provide contact information for [X] verification client references.

*(These references may be contacted to provide information on their previous experience with the prospective verifier.)*

## 6. FEES

- A. Based on the information we have provided to you, provide an estimate of your proposed fees, which should include;

- Hourly rates for any pre-verification work.
- Fees for first year and subsequent verifications, assuming no significant changes in systems and the number of portfolios, total funds, and composites.
- How and when your firm bills for additional work that must be performed that was not contemplated in your initial fee estimate.
- Fees for any individual total fund-specific or composite-specific performance examinations.

*(This demonstrates what approximate fee the verifier will charge to perform a verification and includes some breakdown on the costs in order to explain that fee.)*

- B. Indicate the factors that would influence fees in future years (e.g., number of portfolios/total funds/composites/assets under management).

*(In order for the asset owner to fully understand the cost of the verification process as an ongoing project, it is useful for the verifier to indicate what factors they believe would influence fees in future years.)*

- C. Describe any additional performance-related services besides verification that your firm provides, which are included in the above fee.

*(Verifiers may also offer additional performance related services, such as training, as part of the fee, which are not mentioned in the fee breakdown. This question gives the verifier an opportunity to demonstrate what added value it can provide to the client.)*

Describe any additional performance-related services your firm provides that are excluded from the above fee.

*(Verifiers may also offer additional performance-related services (e.g., training or attribution testing) that are not included in the fee, but which may provide added value to the asset owner.)*

## 7. PREPARING FOR VERIFICATION

- A. What kind of documentation will we need to provide prior to the commencement of and during the verification?

*(Verifiers can demonstrate which supporting records will be utilized and required during the verification.)*

- B. What kind of internal resources do we need to provide during the verification, and for what time period?

*(The asset owner will understand what internal resources will be needed, as well as how long the verification will take.)*

- C. What steps can we take to facilitate a transition between verification firms?

*(For asset owners that are contemplating changing verifiers, this will help the asset owner understand the steps necessary to ensure a smooth transition between verifiers.)*

- D. Is there anything else we should consider when preparing for verification?

*(This will help the asset owner be better prepared for the upcoming verification.)*