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INVESTMENT PERFORMANCE COUNCIL (IPC)

GUIDANCE FOR VERIFICATION

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

1. Verifier Qualification Requirements

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

The Standards do not contain specific qualification requirements to effectively verify compliance with the GIPS standards; however, verifiers must be knowledgeable about the standards and also have a practical level of expertise regarding investment management practices, including performance calculation procedures and business processes. The qualification that the verifier be "independent of the investment management firm" means that generally neither the verifier nor the investment management firm should have a direct conflict of interest. Other consultancy or audit engagements do not necessarily constitute a direct conflict of interest. Verification firms should be cognizant of their role as advisors or performance measurers in the pre-verification stage and ensure that potential conflicts are managed, while investment management firms must satisfy themselves that the verifiers they employ manage the conflicts appropriately. Investment management firms must retain the ultimate responsibility for the decisions made.

A verifier is selected and appointed by the investment management firm. In the selection process,

the investment management firm should give full consideration to the qualification requirements described above and select a candidate who is fully qualified, independent and able to perform a thorough and credible verification.

2. Investment Management Firm – Verifier Relationship

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

- the firm is in compliance with the GIPS standards on a firmwide basis;
- the firm’s management bears all responsibility for the creation of the investment performance report;
- the investment performance reports are a fair and honest representation of the firm’s investment performance;
- the documented procedures have been followed for the entire period of the examination;
- the firm has provided the verifier with all necessary documents to be able to effect verification;
- the time period the verifiers are asked to report on; and
- that no significant events that would materially influence performance results have occurred up to the date when the verifier expresses an opinion.

3. Using the Work of Other Verifiers

The Standards state that a principal verifier may accept the work of a local or previous verifier as part of the basis for the principal verifier’s opinion. For example, when a firm engaged in global asset management services undertakes verification for its claim of compliance on a worldwide basis, including local offices/branches, the principal verifier may use verification results already performed for a local office/branch by a local verifier. Similarly, when another verifier has already verified a part of the firm’s historical performance record, the current verifier may accept the work of the previous verifier.

A principal verifier’s opinion may state that it has relied upon other named verifiers’ opinions in arriving at its overall opinion. If the opinion refers to other verifiers, the principal verifier cannot be

held responsible for the opinion of the other verifiers. Should the investment management firm wish that responsibility to reside with the principal verifier, it should be included in the contract between the firm and the principal verifier. In such circumstances the principal verifier should undertake the due diligence it deems necessary to satisfy its own requirements.

4. Verification Report

The standards do not specify any particular format for the verification report issued by verifiers, but a report generally includes the following:

- the report title;
- the report date;
- the report addressee;
- the definition of the firm for which the verification has been performed;
- the period(s) for which the verification has been performed;
- the responsibility of the firm's management which prepared the investment performance report and that of the verifier;
- a statement to the effect that verification has been performed in accordance with GIPS;
- the verifier's opinion on the following:
 - (1) whether the investment firm has complied with all composite construction requirements of GIPS on a firmwide basis; and
 - (2) whether the firm's processes and procedures are designed to calculate and present performance results in compliance with the GIPS standards.
- any other details that should be mentioned; and
- the signature or official seal of the verifier.

5. Detailed Examinations of Investment Performance Presentations

It should be noted that the purpose and scope of GIPS verification is to confirm that a firm's performance measurement processes and procedures are in compliance with the Standards on a firmwide basis and are not to be seen as an attempt to confirm the appropriateness of specific performance results presented.

An investment management firm may choose to have a more detailed and specifically focused examination (or performance audit) of a specific composite presentation in addition to the verification provided in the Standards. A detailed examination may be conducted at the discretion of

the firm only in addition to the verification set forth in the standards. Therefore, even if an investment management firm undertakes a detailed examination, the firm cannot make a claim of verification unless the entire firm has been verified in accordance with the GIPS standards and has received a verification report from a verifier.

When an investment management firm undertakes a detailed independent examination of a specific composite in addition to the verification set forth in the Standards, the verifier naturally has to perform additional procedures to determine the appropriateness of the relevant composite performance presentation.