

Global Investment Performance Standards

Exposure Draft

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Guidance Statement ~~for on~~ Verification ~~(Revised)~~ Effective 1 January 2011

Introduction

This Guidance Statement supplements the verification procedures outlined in ~~Section III-~~ Chapter IV of the Global Investment Performance Standards (GIPS®) and ~~attempts to provide~~ provides additional guidance to ~~both~~ verifiers ~~as well as~~ and investment management firms ~~seeking verification engagements~~. Verification is a process by which a verifier assesses whether the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis, and the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The GIPS standards recommend that firms be verified.

Verifier Qualification Requirements

~~When an investment management firm undertakes verification of its claim of compliance with the GIPS standards, the~~ The verification must be performed by a “verifier” with appropriate professional abilities and experience, and a practical ~~experience and~~ 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 any updates, Guidance Statements, interpretations, Questions & Answers (Q&As), and clarifications published by CFA Institute and the GIPS Executive Committee, which are available on the GIPS standards website (www.gipsstandards.org) as well as in the GIPS Handbook. Verifiers must also be knowledgeable of applicable laws and regulations regarding the calculation and presentation of performance.

The verification must be performed by a verifier who is independent of the investment management firm. Please see the Guidance Statement on Independence Considerations for Investment Management Firms and Verifiers for additional guidance.

Verifiers generally comprise auditing, consulting, and other firms that have a high degree of knowledge regarding the investment management industry. Verifiers must ~~consider~~ follow currently accepted standards of practice within their industry (if applicable) when ~~verifying an investment management firm's compliance with~~ performing verification pursuant to the GIPS standards.

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~~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; however, the Standards do not contain specific qualification requirements to effectively verify compliance with the GIPS standards. The verifier must be “independent of the investment management firm,” which 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. Please see the Guidance Statement on Verifier Independence for additional guidance.~~

~~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 considerations described above and select a candidate who is fully qualified, independent and able to perform a thorough and credible verification.~~

The GIPS standards do not include additional qualification requirements to conduct a verification.

Investment Management Firm – Verifier Relationship

Verifiers must maintain fairness and independence at all times when ~~determining facts~~ and performing procedures ~~relevant~~ to evaluate a firm’s claim of compliance as well as in expressing ~~opinions~~ their opinion in the verification report. 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~~ representation letter including affirmation that policies and procedures used in establishing and maintaining compliance with the GIPS standards are as described in the firm’s policies and procedures documents and have been consistently applied throughout the period(s) being verified. The representation letter must also include affirmation that the firm complies with the GIPS standards for the period(s) being verified and any other relevant representations made to the verifier during verification. Typically ~~such confirmation~~, the representation letter will include the following representations:

- 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 documents;
- The firm’s policies and procedures for establishing and maintaining compliance with the GIPS standards have been consistently applied throughout the period being verified;
- The firm is in compliance with the GIPS standards on a firm-wide basis;
- The firm’s management bears all responsibility for ~~the creation of the investment performance report~~ maintaining compliance with the GIPS standards, including production and distribution of all compliant presentations;

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- ~~the investment performance reports~~ The compliant presentations are a fair and honest representation of the firm's investment performance;
- ~~the documented procedures that the firm used to establish and maintain compliance throughout the entire period of the verification have been followed;~~
- The firm has not knowingly presented performance or performance-related information that is false or misleading;
- 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 time period the verifiers are asked to report reporting on;
- The firm complies with all applicable laws and regulations regarding the calculation and presentation of performance; and
- ~~and that n~~ No significant events that would materially influence performance results or the outcome of the verification have occurred up to the date when the verifier expresses an opinion.

Knowledge of Firm Policies

Verifiers must understand the firm's policies and procedures for establishing and maintaining compliance with all applicable requirements and adopted recommendations of the GIPS standards. For example, verifiers must understand the firm's policies and procedures with regard to the following functions and objectives of the firm:

- Investment discretion. The verifier must obtain a copy of the firm's definition of investment discretion and the firm's guidelines for determining whether portfolios are discretionary;
- Definition of composite according to investment strategy. The verifier must obtain the firm's list of composite definitions with criteria for assignment of portfolios in each composite;
- Timing of inclusion of new portfolios in the composites;
- Timing of exclusion of closed portfolios in the composites;
- Accrual of interest and dividend income;
- Valuation of portfolio investments, including policies for determination of fair value;
- Computing the time-weighted rates of return for each portfolio;
- Assumptions on the timing of capital inflows/outflows;
- Computing composite returns;
- Presentation of composite returns;
- Use of leverage, derivatives and short positions;
- Maintenance of books and records supporting the calculation of portfolio and composite returns, including the existence and ownership of client assets; and
- Any other policies and procedures relevant to performance presentation.

Using the Work of Other Verifiers and Independent Third Parties

The GIPS S standards state, ~~at Section III.A.6,~~ that a principal verifier may accept the work of ~~a local or previous~~ another 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

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~~for its claim of compliance~~ on a worldwide basis, including local offices/branches, the principal verifier may use ~~verification~~the results ~~already of work~~ performed for a local office/branch by a ~~local~~another verifier. Similarly, when another verifier has already ~~verified a part of the firm's historical performance record~~performed a verification, the current verifier may choose to accept the work of the previous verifier. A principal verifier may also choose to rely on the audit and/or internal control work of a qualified and reputable independent third party. In addition, a principal verifier may choose to rely on the other audit and/or internal control work performed by the verification firm.

~~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.~~

GIPS Verification Report

The verification report must ~~confirm~~include the verifier's opinion ~~on the following, as provided in Section III.A.4~~which opines that:

1. ~~the~~The firm has complied with all the composite construction requirements of the GIPS ~~Standards~~standards on a firm-wide basis, and
2. ~~the~~The firm's ~~processes~~policies and procedures are designed to calculate and present performance ~~results~~ in compliance with the GIPS standards.

~~Without such a report from the verifier, the firm cannot state that its claim of compliance with the GIPS standards has been verified.~~

The ~~Standards do not specify any particular format for the~~ verification report ~~issued by verifiers, but a report generally includes the~~must also include a number of required elements.

The following information is required to be included in the verification report in addition to the verifier's opinion:

- The report title;
- The report date;
- The report addressee;
- The defined ~~ition~~ firm for which the verification has been performed;

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- ~~The~~ the period(s) for which the verification has been performed;
- ~~the~~ The respective responsibilities of the firm's management and of the verifier, including a statement acknowledging the responsibility of the ~~firm's management~~ firm for the claim of compliance ~~and that of the verifier~~;
- ~~a~~ A statement to the effect that verification has been performed in accordance with the ~~GIPS~~ GIPS required verification procedures of the ~~GIPS~~ GIPS standards;
- ~~any other details that should be mentioned; and~~
- ~~The~~ The signature or official seal of the verifier;

- A statement indicating that verification does not ensure the accuracy of any specific composite presentation; and
- A statement describing any other guidance frameworks that have been applied (e.g., ICAEW, JICPA, or AICPA guidance).

In addition to the required content, the verifier's opinion may also include additional information, as appropriate, to make the context of the particular verification work clear.

Without such a report from the verifier, the firm must not state that it has been verified.

If the verifier concludes that the firm is not in compliance with the GIPS standards or that the records of the firm cannot support a ~~complete~~ verification, the verifier must issue a statement to the firm clarifying why a verification report ~~was~~ could not ~~possible, as provided in Section III.A.5 of the Standards.~~ be issued.

~~Detailed Performance~~ Examinations of ~~Investment Performance~~ Compliant Presentations

~~It should be noted that the purpose and scope of GIPS A verification is to confirm that the firm has complied with all the composite construction requirements of the Standards on a firm-wide basis and the firm's performance measurement processes and procedures are designed to calculate and present performance results in compliance with the Standards on a firm-wide basis, and are~~ does not to be seen as an attempt to confirm ~~have~~ the appropriateness ~~objective~~ of examining specific performance results presented.

~~An~~ To accomplish that objective, an investment management firm may choose to have a ~~more detailed and specifically-~~ focused ~~performance~~ performance examination ~~(or performance audit) of a specific composite of a particular composite's compliant presentation in addition to the verification provided in the Standards.~~ A performance 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 performance examination, the firm cannot make a claim of verification unless the entire firm has been ~~is not required for a firm to be~~ verified in accordance with the GIPS standards and has received a verification report from a verifier. A Guidance Statement for Performance Examinations is being developed to provide additional guidance on this subject.

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~~When an investment management firm undertakes a performance 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.~~

[Please see the Guidance Statement for Performance Examinations for additional guidance.](#)

Effective Date

This Guidance Statement was originally effective 13 March 2002 and was [initially](#) revised to reflect the changes to the GIPS standards effective as of 1 January 2006. [Subsequent revisions made to this guidance were made to coincide with the effective date of the 2010 edition of the GIPS standards, which is 1 January 2011. Verifiers must conduct their verification engagements in accordance with this Guidance Statement for 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. The contract date is typically evidenced by the date of the engagement letter signed by management of both the verification firm and the investment management firm. Verifiers may also voluntarily conduct their verification engagements in accordance with this Guidance Statement prior to 1 January 2011 and are encouraged to do so. Prior versions of this Guidance Statement are available on the GIPS standards website \(\[www.gipsstandards.org\]\(http://www.gipsstandards.org\)\).](#)

~~Verification and investment management firms are encouraged, but not required, to apply this guidance prior to the original Effective Date of 13 March 2002; however, the original guidance must be applied to all presentations that include performance for periods on and after that date.~~

~~The revisions made to this guidance (effective 1 January 2006) must be applied to all presentations that include performance for periods after 31 December 2005.~~

Applications:

~~1. *Is verification of a firm's claim of compliance required?*~~

~~No. The GIPS standards currently recommend that firms have a verification performed by an independent third party. Verification is a firm-wide test of a firm's compliance with certain requirements of the GIPS standards.~~

~~It should be noted that the GIPS standards state the following: Verification is strongly encouraged and is expected to become mandatory at a future date. The issue of mandatory verification will be re-evaluated by and the industry will be provided sufficient time to implement any change.~~

~~2. *Can a verification be performed on a composite or on an individual account or fund within a composite?*~~

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~~No, only a firm may be verified. A verification report is issued for a firm, not for a composite, fund or account. The Standards provide that a detailed performance examination can be performed on an individual composite either after or in conjunction with a firm-wide verification.~~

~~3. A firm's management has decided to omit measures of dispersion from composite presentations due to the complexity of the calculations and the firm's verifiers have agreed to sign a verification report with an "except for" paragraph. The verifiers contend that as long as the presentations disclose why this data is omitted, that the composites are presented in compliance with the GIPS standards. Is this correct?~~

~~No. Provision 5.A.1.d requires that a composite's performance presentation include a measure of dispersion of individual portfolio returns for each annual period presented. Only when the composite contains five or fewer portfolios for the full year is a measure of dispersion not required to be presented. Firms may not omit required information from a "GIPS compliant" presentation and remain "in compliance." Firms must be in compliance on a firm-wide basis and meet all the requirements of the Standards to claim compliance. Firms cannot state they are in compliance "except for" certain provisions. If a firm does not include all relevant required disclosures, as well as relevant presentation and reporting requirements in a composite presentation, the firm may not claim compliance with the GIPS standards and a verifier cannot issue a verification report.~~

~~4. Our firm has been in compliance with the GIPS standards since 2000. We obtained a verification from an independent verifier covered the periods from 1995 through December 31, 2002. At what point does our verification "expire"?~~

~~It would be misleading for a firm to state that a verification has been performed without specifying the appropriate time period covered by the verification. If your firm makes reference to the verification in the disclosures to a composite presentation, unless all time periods presented have been verified, you must disclose which periods have been verified.~~

~~While a verification does not expire after a certain period of time, a firm should consider whether references to a verification that covers periods more than 24 months ago have the potential to be misleading.~~

~~5. What requirements must a verifier meet in order to be able to perform a GIPS verification?~~

~~Any third party that is knowledgeable about the Standards, investment performance measurement, portfolio accounting, and and is independent from the investment management firm may perform a verification; independent and knowledgeable are the key words. The Guidance Statement on Verifier Independence discusses in more detail the notion of independence. While firms are encouraged to conduct a "self-check" of their compliance, perhaps by internal audit department, this would not constitute a verification: an investment~~

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~~management firm's internal audit department is not independent from the investment management firm.~~