



Revisions to the GIPS Guidance Statement on Performance Examinations

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Performance examinations on the appropriateness of specific composite presentations have never been recommended or required under the GIPS standards and over the years the number of performance examinations requested by firms has been slowly dropping, even in the North American market. However, performance examinations for “hot” strategies have remained important marketing differentiators for many asset managers.

Effective 31 December 2006, the GIPS® Guidance Statement on Performance Examinations was issued to ensure consistency between verifiers performing an examination and asset managers choosing to undergo a performance examination. In line with its ongoing efforts to update GIPS guidance statements to ensure consistency with the recently released GIPS 2010 Standards (effective as of 1 January 2010), the CFA Institute published the Exposure Draft of the Guidance Statement on Performance Examinations, with the proposed changes open for public comment until 31 August 2011.

The most important changes in the Exposure Draft, outlined below, mainly address areas that are critical to improve the planning, execution and reporting on the appropriateness of performance presentation of a specific composite. On a general note, the Exposure Draft stresses that the listed procedures represent the required minimum, i.e., if the circumstances require it, verifiers may even need to perform additional procedures.

The “Sampling” section has been enhanced considerably, incorporating input from earlier Q&As, and now highlights the importance of the completeness of the population and the selection of the most appropriate sampling methodology considering the specific facts and circumstances of relevance for the firm and composite.

The “Performance Examination Procedures” have been updated with additional details and clarifications related to existence and ownership of client assets, performance calculations and supplemental information. The

most dramatic change addresses the completeness, existence and ownership of client assets. The inclusion of an independent confirmation of assets with independent custodians and counterparties is a clear response to the performance examination issues that emerged amid renewed high-profile fraud cases relating to misappropriated client assets and falsified reporting of their existence. Further, the proposed guidance requires a verifier to perform a more thorough examination of the reconciliations and client procedures on the existence and ownership of client assets. The Exposure Draft also includes improved procedures on custom benchmarks, which have been the subject of regulatory scrutiny for many years.

In the "Representation Letter" section, the Exposure Draft provides a more detailed discussion on the required and "good to have" areas in the letter that firms provide to the verifier responsible for performing the examination. The required representations from the firm will need to address fundamental areas such as the compliance of policies with the GIPS standards and the consistency of their application.

The "Performance Examination Report" section deals with another key update for

performance examinations by discussing verifier reporting requirements in more detail. The proposed changes aim to improve the consistency of reporting by clarifying the areas the verifiers must opine on the required elements and references in the performance examination report.

The representation letter and reporting requirements are consistent with the Statement of Position 06-1 *Reporting Pursuant to the Global Investment Performance Standards*, AICPA's guidance to US CPA firms providing firm-wide verifications and engagements to examine and report on the performance results of specific composites.

The Exposure Draft of the Guidance Statement on Performance Examinations includes a significant number of changes: expanded, sometimes more stringent, procedures, clarification of execution and reporting requirements and consistency with the GIPS 2010 standards. The proposed changes aim to improve the quality of the performance examination to deliver on one of the key missions of the GIPS standards – restoring and maintaining investor confidence.