

Disclaimer: The GIPS Executive Committee does not currently view the following working paper and/or document as a part of the Global Investment Performance Standards (GIPS®). Based on regional and/or sector interest, various working papers are developed to provide potentially helpful information and ideas on topics related to investment performance and are offered as general education. There is no information, recommendation or other detail contained in this document that impacts a firm's ability to claim compliance with the GIPS standards.

INVESTMENT PERFORMANCE COUNCIL (IPC) Verification Subcommittee

SUGGESTED QUESTIONS TO ASK PROSPECTIVE VERIFICATION FIRMS

The Global Investment Performance Standards (GIPS®) standards are an ethical set of standards to be used by investment management firms for creating performance presentations that ensure fair representation and full disclosure. Global standardization of investment performance reporting will allow investors to compare investment firms and will allow firms to compete for new business in foreign markets.

The GIPS standards recognize the importance of independent third-party “verifiers”. Verification is the review of an investment management firm’s performance measurement processes and procedures by an independent third-party verifier. Verification of a firm’s claim of compliance with the GIPS standards brings credibility to the claim of compliance and increases the consistency of presentation of performance results. The GIPS standards strongly recommend Verification (which may become mandatory, but not earlier than 2005).

In order to aid firms in their selection of verifier, the Verification Subcommittee of the Investment Performance Council (IPC) has outlined below some questions that may be helpful when considering prospective verifiers. This document is intended to be a starting point, and may include questions that may not be appropriate for a specific firm’s circumstances. Also, questions that should be asked by a specific firm may not be included.

This document was originally created by the European Investment Performance Committee (EIPC), a Regional Investment Performance Subcommittee of the IPC. The Verification Subcommittee extends their deep appreciation to the EIPC for beginning the dialogue on this important guidance.

1) FIRM OVERVIEW & SUMMARY OF OFFERED SERVICES

- i) Describe your firm’s global book of verification business and give an overview of your firm’s history as a verification service provider. Also list the verification clients that you have lost in the last three years, including information about the reason for the loss.

(This helps the investment management firm achieve an understanding of the verifying firm's position in the market place. Furthermore, knowledge of the verifying firm's experience and background will help the investment management firm determine the credibility of a potential verifier).

- ii) Describe the verification and other performance-related services that your firm offers

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

- iii) How does your firm stay current with significant industry issues and changes? How do you communicate these issues / changes to your clients?

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

- iv) Describe how verification services are organized in your company (at either local / global level - as applicable)

(This helps demonstrate how important verification is to a verifier. If the verifier can demonstrate a strong structure with good organization and communications channels, it is more likely to be able to offer a high level of service.)

2) STANDARDS

- i) In your opinion, which set of investment performance standards would be most appropriate for our firm, and why (for example: the GIPS standards, a Country Version of GIPS, a Translation of GIPS)?

(This demonstrates the verifier's knowledge of both global and local investment performance standards, while helping the investment management firm understand which form of standards would be most beneficial for them to be verified as being in compliance with).

- ii) How do you ensure the verification procedures performed are applied consistently throughout your firm (at either local/global level – as applicable?)

(This shows how appropriately and consistently the verifier will apply verification techniques across the firm(s)).

- iii) What type of training related to GIPS compliance and performance topics can you provide for clients?

(This demonstrates how the investment management firm can benefit from the experience and training of their verifiers).

- iv) What elements do you, as verifiers, feel are most important to concentrate on during verification?

(This helps the investment management firm understand where the verifier's emphasis lies with regard to what the verifier considers the key elements to test compliance with the standards).

3) YOUR APPROACH TO THE VERIFICATION PROCESS

- i) Describe your firm's verification approach and client service philosophy

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

- ii) Describe how you would structure and manage the verification project

(This will help the investment management firm understand how the verification will be organized).

- iii) What reliance do you place on any verification, audit, or regulatory work that has already been carried out by your firm or by others?

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

- iv) Describe the scope of testing your firm normally employs during both an initial and a subsequent verification project.

(This will enable the investment management firm to understand and validate the minimum and maximum limits of the verifier's investigation threshold for the current and subsequent years).

- v) Please outline the most common problems and issues that you encounter during verification projects and how they are resolved

(This question will help the investment management firm to understand where common issues/problems occur during verification projects. They can then apply this knowledge to their own business, in order to judge and consider the potential implications of the prospective verifiers' previous actions on the investment management firm).

- vi) After first year verification, what is your process for verifying subsequent years?

(This demonstrates to the investment management firm how the verification project as an ongoing process will be managed).

vii) How would you deal with any issues that the verifier and client disagree on?

(It is important to ensure that the verifier can demonstrate what steps it will take prior to and during the verification project, in order to address issues that they and the investment management firm might disagree on).

4) EXAMPLES OF SPECIFIC QUESTIONS – THESE NEED TO BE TAILORED TO A FIRM’S CIRCUMSTANCES AND ARE NOT INTENDED TO BE PRESCRIPTIVE NOR EXHAUSTIVE

i) How do you assess the adequacy of supporting documentation to support performance data? What would you do if documentation for some periods was not as complete as other periods?

(This question is of particular importance if an investment management firm is attempting to claim compliance over a period of time during which their records may not be as complete as they would like. For example, a firm 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 destroyed due to extreme circumstances beyond the control of the firm. The verifier may feel that the firm is able to demonstrate alternate sources of evidence to support the performance record other than through the usual supporting evidence).

ii) Please provide details of your experience in verifying firms with merger / takeover activity of fund track records (portability issues)

(This question is particularly important for investment management firms who have a history of merger / takeover activity and wish to ensure that all of their business entities are in compliance, as compliance can only be verified on a ‘firmwide’ basis. It also indicates the verifier’s experience in dealing with complex survivor issues).

iii) Please provide details of experience in verifying firms with alternative investment products (Private Equity, Fund of Funds Products, Real Estate, etc.)

(This question is particularly important for investment management firms who offer alternative investment products where the usual compliance process is not wholly applicable. The investment manager may require examples of verifiers’ experience at other firms in order to judge how their own alternative investment products would be efficiently tested during the verification.)

iv) How do you ensure that confidentiality is maintained at all times?

(This question may be important in certain environments, for example Switzerland).

v) Detail your experience with (named) investment products and instruments

(This question enables the verifier to demonstrate their understanding of certain types of products and instruments that may be important to the verification process.)

- vi) What are the factors you believe a firm should consider when defining discretion?

(This question will help the investment management firm formulate ideas on how they might define discretion, as well as the verifiers experience with this topic).

- vii) Please outline any factors that should be taken into consideration when a composite's results will be presented to clients in more than one country

(This is particularly important for investment management firms seeking to define themselves as a 'global firm' and may be considering whether to comply with more than one set of standards, or for those which have operations in more than one country).

- viii) Describe what experience you have with (name the investment management firm's back office & front office investment systems.)

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

- ix) Describe your policy for issuing recommendations resulting from the verification process.

(This demonstrates the capacity of a verifier to bring added value thanks to knowledge of the firm, its organizational structure, and the verification processes.)

- x) What is your opinion on situations that may generate conflicts of interest, if other non-verification-related services are provided by the verification firm?

(This helps the investment management firm understand the verification firm's views on what constitutes a conflict of interest.)

5) PERSONNEL

- i) Provide information on each staff member who will be involved in the project including;
- length of time with firm and number of years of Verification/investment performance experience
 - number of clients verified
 - additional verification/investment management industry experience (committees etc.)

Also describe how you ensure continuity of the engagement team in succeeding years.

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

- ii) Are there any additional verification staff/resources within your firm (at either local/global level – as applicable)

(This question demonstrates the capacity and resources that the verifying team has to provide full support to the investment management firm).

- iii) Demonstrate how you would ensure you maintain independence from your verification clients.

(This question requires the prospective verifying firm to demonstrate what methods / practices they have put in place to ensure independence).

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

(This demonstrates that the verifier keeps abreast of new developments in the investment performance standards and that the verifier is committed to supporting the development of the standards).

6) CLIENT REFERENCES

- i) Provide the number of your firm’s verification clients (at local/global level – as applicable), as well as a description of the types and sizes of verification clients.

(This helps the investment management firm to achieve an understanding of the verifying firm’s position in the marketplace and of the type and size of clients that the verifying firm deals with).

- ii) Offer names and addresses for [2] potential verification reference clients

(These referees may be contacted to provide information on any aspect of their previous experience with the prospective verifier).

- iii) Describe your firm’s process for monitoring client satisfaction

(This will give the investment management firm an indication of how the verifier will work with them, in order to ensure that they are satisfied with the verification work).

- iv) How you respond to areas of client dissatisfaction?

(This will demonstrate to the investment management firm that the verifier is committed to providing a high level of service and what actions they will take to ensure that that level is maintained throughout the verification relationship).

7) FEES

i) Based on the information we have provided to you concerning our firm's GIPS policies and procedures, systems used, number of composites maintained, etc., please provide an estimate of your proposed fees, this should include;

- Consultancy rates for any pre-verification/project management assistance
- GIPS verification charges for first year and subsequent years
- How you bill for additional work that must be performed but was not contemplated in your initial fee estimate
- Charge for any individual composite performance reports that may be required to be examined/audited

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

ii) Identify any additional services besides verification that you provide, which are included in the above fee

(Verifiers may also offer additional 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 bring to a verification project).

iii) Identify any additional value-added services that you provide, excluded in the above fee

(Verifiers may also offer additional verification services (e.g., training or attribution testing) that are not built into the fee, but which may bring added-value to the overall verification project).

iv) Please indicate the factors that would influence fees in future years (e.g., number of accounts/composites/assets under management)

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

8) PREPARING FOR VERIFICATION

i) How should we prepare for the verification?

(Verifiers may provide recommendations for procedures that should be performed prior to the verification, which would assist in the efficient conduct of the verification.)

ii) What kind of documents will we need to provide prior to the commencement of the verification?

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

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

(The investment management firm will understand what internal resources will be needed, as well as how long the verification will take.)