

UK Investment Performance Committee (UKIPC)
Response to
GIPS Exposure Draft Guidance Statement on Performance Examinations

1 About the UKIPC

The UK Investment Performance Committee (UKIPC) is the UK national sponsor for the Global Investment Performance Standards (GIPS). It brings together representatives of asset owners, advisors, managers, verifiers, measurers, analysts and other parties with an interest in the continuing development and promotion of transparent, consistent and ethical investment measurement performance standards.

We are grateful to the CFA Institute and the volunteers on the various GIPS committees, subcommittees and working groups for their work in updating the GIPS Guidance Statements in line with the 2010 version of the GIPS. We welcome the opportunity to comment on the Exposure Draft Guidance Statement on Performance Examinations.

2 Response

In general, we are happy with the proposed guidance statement, with the exception of a small number of points detailed below.

- 1) We note the comment in the proposed guidance statement that a performance examination “is neither recommended nor required under the GIPS standards” (final paragraph of Introduction, page 1). We also note that performance examinations are infrequently requested in the UK market, and where they are requested it is almost exclusively to meet requirements from one target market (USA). So, firstly, we would question the need for a formal guidance statement for performance examinations at all.

- 2) Section 6 of the Performance Examination Procedures (page 6) places a responsibility upon the verifier to “make every reasonable effort to obtain these documents¹ directly from independent external parties (e.g., custodian, broker)”. In our view this requirement places an unreasonable burden upon the verifier and were this to be done diligently it would result in a significantly longer and more costly examination process. We recognise that a similar responsibility rests on fund auditors and that they are able to meet this requirement, but they are supported, in many markets, by a statutory obligation on such external parties to provide such information to the auditors. In the absence of such a statutory requirement

¹ Documentation, such as custody statements and custody reconciliations, evidencing existence and ownership of client assets.

relating to performance examinations we anticipate that such requests are unlikely to be dealt with as a priority. There is also a question as to whether a verifier has the right to request such information about records relating to the end-client, and in many cases whether the investment manager has any right to do so. There is anecdotal evidence that some third parties insist that such requests come from the end-client directly, which will be difficult to achieve where there is a large number of portfolios. We believe that the existing requirements in the same section of the guidance statement to ensure that portfolio positions are supported by sufficient documentation and that the methods used to ensure the existence and ownership of assets are appropriate are sufficient, when combined with an over-riding requirement for a verifier to use professional scepticism when reviewing such information.

- 3) The guidance statement requires the verifier to “ensure that the supplemental information is not false or misleading, and the supplemental information is clearly labelled and identified as supplemental information...” (page 7, final paragraph). It is not clear from this reference how far the verifier must go to ensure that this is the case. Is the intention that the verifier must check the source and calculation of all supplemental information that is, or could be, included alongside the compliant presentation? There may be situations where a firm will have a standard compliant presentation that is issued to all relevant prospective clients, but may then select from an array of supplemental information items depending on what is appropriate for the specific client.

The guidance requires that the compliant presentation for the specified composite that has been examined must be included with the performance examination report (first paragraph of Performance Examination Report, page 8). We suggest that this could be expanded to include not only the compliant presentation but also any supplemental information that the firm wishes to provide routinely along with the compliant presentation; the scope of the testing required should then be limited to the information included with the performance examination report and the report should include language that discloses this limitation of scope.

- 4) In the section dealing with the representation letter (page 8) it is not clear whether the verifier who is conducting multiple performance examinations for the same firm is required to obtain a separate representation letter for each examination or a single letter covering all examinations. To be consistent with the requirement for the report, we suggest that a single representation letter covering a number of composites should be acceptable, although this should not exclude multiple letters. There is also no mention of whether the representation letter should be included as a component of the performance examination report. It would

be helpful if what is intended on these two points could be clarified in final version of the guidance statement.

- 5) In the section dealing with the performance examination report there is wording on two required pieces of information that needs to be amended:
 - a) "the defined firm for which the verification has been performed"; and
 - b) "the period(s) for which the verification has been performed" (page 9, fourth and fifth indent on list)

Presumably in both of these cases the reference to "verification" should be to "performance examination", consistent with subsequent items on the list.