
Reporting Pursuant to the Global Investment Performance Standards

Introduction and Background

1. To promote fair representation, full disclosure, and greater comparability of investment performance, the CFA Institute developed the Global Investment Performance Standards (GIPS® standards).¹ Although compliance with the GIPS standards is voluntary, an investment management firm's claim of compliance with the GIPS standards gives current and potential clients more confidence in the integrity of the performance presentations and the general practices of a compliant firm.
2. All references to the GIPS standards in this Statement of Position (SOP) refer to the 2010 edition of the GIPS standards. The GIPS standards specify that they include any updates, guidance statements, interpretations, questions and answers, and clarifications published by the CFA Institute and the GIPS Executive Committee, all of which are available at www.gipsstandards.org, as well as in the *GIPS Handbook*.
3. The GIPS standards recommend that investment management firms obtain independent third-party verification. *Verification* is a process in which an independent third party, referred to as a verifier, assesses whether (a) the firm has complied with all the composite construction requirements of the GIPS standards on a firmwide basis, and (b) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification is intended to provide a firm and its existing and prospective clients with greater confidence in the firm's claim of compliance with the GIPS

1. For information on the appropriate use of the Global Investment Performance Standards registered trademark, see the CFA Institute website at www.cfainstitute.org.

standards. Verification does not provide absolute assurance that a firm is in compliance with the GIPS standards.

4. In addition to verification, a firm may choose to have a verifier perform a specifically focused performance examination of any of the firm's composites and their associated compliant presentations. A *compliant presentation* is defined as a presentation for a composite that contains all the information required by the GIPS standards and that may also include additional or supplemental information. The GIPS standards permit a report on the performance examination of a composite and its associated compliant presentation to be issued only if a verification report has also been issued.
5. A verifier may or may not be a CPA. A CPA in the practice of public accounting hired to perform a verification or performance examination is referred to in this SOP as a practitioner.

Scope

6. This SOP provides guidance to practitioners for engagements to examine and report on aspects of a firm's claim of compliance with the GIPS standards (a verification). It also provides guidance on engagements to examine and report on any of the firm's composites and their associated compliant presentations (a performance examination). Practitioners are required to perform such engagements pursuant to AT section 101, *Attest Engagements* (AICPA, *Professional Standards*).
7. Although a verification consists of examining aspects of a firm's compliance with the GIPS standards and the design of certain policies and procedures, a verification is not a compliance attestation engagement or an internal controls attestation engagement as governed by AT section 601, *Compliance Attestation*, and AT section 801, *Reporting on Controls at a Service Organization* (AICPA, *Professional Standards*), respectively.
8. This SOP supersedes SOP 06-1, *Reporting Pursuant to the Global Investment Performance Standards* (AICPA,

Technical Practice Aids, AUD sec. 14,420). This SOP also supersedes paragraphs 11.37–.42 of chapter 11, “Independent Auditor’s Reports and Client Representations,” of the AICPA Audit and Accounting Guide *Investment Companies* (as of May 1, 2012).

Overview of the GIPS Standards

Compliance With the GIPS Standards

9. The GIPS standards establish both requirements and recommendations for firms to follow when calculating and presenting investment performance. Adherence to the recommendations of the GIPS standards is encouraged. The GIPS standards use the term *must* to indicate requirements and the term *should* to indicate recommendations. AT section 101 uses the terms *must*, *is required*, or *should* to indicate requirements and *may* to indicate recommendations. To avoid confusion, this SOP uses the terms *is required* or *must* to indicate requirements of AT section 101 or the GIPS standards.
10. The GIPS standards require an entity to define itself as a firm. For a firm to claim compliance with the GIPS standards, the firm must meet all the requirements of the GIPS standards on a firmwide basis. Firms are prohibited from claiming compliance “except for ...” or making any other statements that may indicate partial compliance with the GIPS standards.
11. The GIPS standards provide *suitable criteria*, as defined in AT section 101, for verifications and performance examinations. The criteria are available to users, as defined in AT section 101, as they are posted to www.gipsstandards.org. The GIPS standards require verifiers to use the criteria set forth therein. Consequently, practitioners who perform a verification or performance examination pursuant to the GIPS standards are required to understand the GIPS standards, including interpretative guidance.
12. Practitioners are required to be independent of the firm, in accordance with the AICPA Code of Professional Conduct and the GIPS *Guidance Statement on Verifier Independence*.

Verification

13. A verification tests whether the
 - a. firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis.
 - b. firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards.

The GIPS standards specify procedures that practitioners are required to perform for a verification, as well as recommendations and guidance (see chapter IV of the GIPS standards, the *GIPS Guidance Statement on Verification*, and the *GIPS Guidance Statement on Verifier Independence*).

14. According to the GIPS standards, when a firm has obtained a verification report, the firm may state that it is verified. This statement may or may not be accompanied by a presentation of performance history for a specific composite. A verification, however, does not imply that the verifiers have examined the accuracy of the performance results of any specific composite presentation that may accompany the verification report (see paragraph 39).

Performance Examination

15. In addition to a verification, a firm may choose to have a verifier conduct a performance examination. The GIPS standards specify procedures that practitioners are required to perform for a performance examination and also include recommendations and guidance (see the *GIPS Guidance Statement on Performance Examinations*). A verification is required to be performed prior to, or concurrent with, any performance examination. A firm is not permitted to state that a particular composite and its associated compliant presentation have been independently examined with respect to the GIPS standards unless the firm has also obtained a firmwide verification report covering the periods of the performance examination. Firms cannot state that a particular composite and its associated compliant presentation have been GIPS verified or make any claim to that effect.

Verification and Performance Examination Engagements

Engagement Objectives

16. Practitioners are required to conduct verifications and performance examinations in accordance with attestation standards established by the AICPA. In addition, the GIPS standards specify that these engagements must be conducted in accordance with the procedures required in the GIPS standards. This SOP is not intended to provide all the required and recommended procedures set forth in the GIPS standards or all the applicable attestation standards established by the AICPA.
17. For a verification, the practitioner's objective is to express an opinion on whether, in all material respects, the
 - a. firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis.
 - b. firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards.
18. For a performance examination of a specific composite, the practitioner's objective is to express an opinion on whether, in all material respects, the firm has
 - a. constructed the composite and calculated the composite performance in compliance with the GIPS standards.
 - b. prepared and presented the composite presentation in compliance with the GIPS standards.

A firm that has met the requirements of the GIPS standards with regard to a specific composite presentation is considered to have prepared and presented that composite presentation in compliance with the GIPS standards.

Planning the Engagement

19. Paragraph .44 of AT section 101 specifies that planning an attest engagement involves developing an overall strategy

for the expected conduct and scope of the engagement. To develop such a strategy, practitioners need to have sufficient knowledge to enable them to adequately understand the events, transactions, and practices that, in their judgment, have a significant effect on the subject matter or assertions. Such knowledge includes a sufficient understanding of the investment management industry and the GIPS standards, AICPA interpretive guidance, and applicable laws and regulations regarding the calculation and presentation of investment performance. The GIPS standards also address qualifications for verifiers.

Establishing an Understanding With the Client

20. The practitioner is required to establish an understanding with the client regarding the services to be performed to reduce the risk that either the practitioner or client may misinterpret the needs or expectations of the other party. The understanding is required to include the objectives of the engagement, management's responsibilities, the practitioner's responsibilities, limitations of the engagement, and any limitations on the use of the practitioner's name and report. The understanding may include a statement that if the client intends to use the practitioner's report(s) or refer to the practitioner in connection with any sales or advertising literature, the client will provide a draft of such literature to the practitioner for his or her review and comment prior to issuance.
21. The practitioner is required to document the understanding in the working papers, preferably through a written communication with the client, such as an engagement letter (see appendix A, "Example Engagement Letter—Verification and Performance Examination," of this SOP for an example engagement letter).

Obtaining Sufficient Evidence

22. In conducting an attest examination, the practitioner's objective is to accumulate sufficient evidence to restrict attestation risk² to a level that is, in the practitioner's professional judgment, appropriately low for the high level of

2. See footnote 9 in paragraph .45 of AT section 101, *Attest Engagement* (AICPA, *Professional Standards*), for the definition of attestation risk.

assurance that may be inferred by his or her report. A practitioner is required to select from all available procedures (that is, procedures that assess inherent and control risk and that restrict detection risk) any combination that can mitigate attestation risk to such an appropriately low level.

23. When conducting an attest examination, the practitioner is required to consider the following presumptions, bearing in mind they are not mutually exclusive and may be subject to important exceptions:
 - Evidence obtained from independent sources outside an entity provides greater assurance about the subject matter or assertion than evidence secured solely from within the entity.
 - Information obtained from the practitioner's direct personal knowledge (such as through physical examination, observation, computation, operating tests, or inspection) is more persuasive than information obtained indirectly.
 - The more effective the controls over the subject matter, the more assurance they provide about the subject matter or assertion.
24. As noted previously, the GIPS standards specify procedures that practitioners are required to perform for a verification and performance examination of one or more specific composites and their associated compliant presentations, as well as recommendations and guidance (see chapter IV of the GIPS standards, the *GIPS Guidance Statement on Verification*, the *GIPS Guidance Statement on Performance Examinations*, and the *GIPS Guidance Statement on Verifier Independence*). A practitioner may perform other procedures in addition to those specified in the GIPS standards. Regardless of the scope of the engagement, the practitioner is required to obtain sufficient evidence to provide a reasonable basis for the opinion expressed in the report.
25. The GIPS standards permit the use of a sampling methodology when performing verification or performance examination procedures. The practitioner may find it helpful to consider the guidance in the AICPA Audit Guide *Audit*

Sampling when performing procedures that involve the use of sampling.

26. The GIPS standards specify that a verifier must understand the firm's policies and procedures for establishing and maintaining compliance with all the applicable requirements and adopted recommendations of the GIPS standards, evaluate whether all applicable policies are properly included and adequately documented, and then test the firm's compliance with the established policies and procedures.
27. When a performance examination of one or more composites and their associated presentations is conducted subsequent to, not concurrent with, a verification, the practitioner is required to update the practitioner's understanding of the firm's policies and procedures and inquire about any other changes that may affect the planning and conduct of the performance examination. In addition, the practitioner is required to follow the preperformance examination procedures required by the GIPS standards.
28. The GIPS standards require that firms initially claiming compliance with the GIPS standards report, at a minimum, 5 years of investment performance for each composite presented (or performance since inception of the composite or firm if the period since inception is less than 5 years). After the initial presentation of GIPS-compliant performance, the firm must add an additional year of performance until the firm presents a 10-year GIPS-compliant performance record. Thereafter, at a minimum, a 10-year GIPS-compliant performance record must be presented.
29. The initial minimum period for which verifications can be performed is one year of the firm's presented performance or from firm inception date to period-end if less than one year. Subsequent verifications may cover any additional time periods, with annual updates being common and quarterly updates also performed. After the initial verification or performance examination is complete, it is industry practice to append subsequent verification or performance examination periods to the initial period. For example, if an initial performance examination was completed on a firm from January 1, 2006, to December 31,

2010, the following year's performance examination period would cover from January 1, 2006, to December 31, 2011. Documentation for each annual engagement is required to indicate the procedures performed supporting the consideration of prior period opinions. Such procedures may include inquiries and evaluation of the implication of the findings of current year's procedures for prior periods.

30. During a verification or performance examination, the practitioner is required to consider information about subsequent events and subsequently discovered facts that come to his or her attention. Such subsequent events and subsequently discovered facts include circumstances and events that affect prior period-compliant presentations. Errors in prior period-compliant presentations would be assessed in accordance with the firm's error correction policies. If a correction is required by the firm's error correction policy, and the firm does not correct the error, the practitioner is required to consider the implications for the performance examination and, if applicable, the related verification. If the firm corrects, or has corrected, a prior period-compliant presentation, the practitioner would perform appropriate testing of material revisions to previously reported information, including disclosures, regarding the changes and would consider the implications on the practitioner's ability to issue his or her report (see paragraph 34).

Representation Letter

31. The GIPS standards specify that the verifier must obtain a representation letter from the firm before issuing an opinion on a verification or performance examination. The representations for a verification and performance examination(s) can be included in one letter. Appropriate parties to sign the representation letter are responsible persons with an appropriate level of authority (for example, chief executive officer, chief financial officer, chief compliance officer, or chief investment officer).
32. The GIPS standards include a listing of required representations, as well as a listing of other representations that are typically included, for both verifications and performance

examinations. The GIPS standards require that the representation letter include, among other representations, confirmation 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). The representation letter must also include confirmation that the firm complies with the GIPS standards for the period(s) and any other relevant representations made to the practitioner during the engagement. Because the practitioner is concerned with events occurring up to the date of the practitioner's report, the written representations are dated as of the date of the practitioner's report.

33. Appendix B, "Example Representation Letter," of this SOP contains an example representation letter that includes required and recommended management representations. Management's refusal to furnish all appropriate written representations constitutes noncompliance with the GIPS standards that would preclude the practitioner from rendering an opinion (see paragraph 34).

Reporting

34. The GIPS standards do not permit the issuance of a report with a qualified or an adverse opinion or a disclaimer of opinion for either a verification or performance examination. After conducting the procedures for a verification or performance examination, the practitioner may conclude that
 - a. the records of the firm cannot support a verification or performance examination, or
 - b. the firm is not in compliance with the GIPS standards, including situations in which the composite presentation does not comply with the GIPS standards.

In such situations, the GIPS standards specify that the practitioner must issue a statement to the firm clarifying why it was not possible to issue a verification or performance examination report.

35. When a performance examination report cannot be issued, the GIPS standards require the practitioner and firm to consider the impact of the practitioner's inability to provide the performance examination report on the investment management firm's claim of compliance with the GIPS standards.
36. AT section 101 permits the practitioner to report either on the assertions or directly on the subject matter to which the assertions relate. According to AT section 101, when the practitioner is reporting on management's assertion, the practitioner's examination report is required to include an identification of the assertion and responsible party. When the assertion does not accompany the practitioner's report, the first paragraph of the report is required to contain a statement of the assertion. The illustrative reports in appendix C, "Illustrative Attest Report: Verification (Reporting Directly on the Subject Matter)," and appendix D, "Illustrative Attest Reports: Verification and Performance Examination (Reporting Directly on the Subject Matter)," of this SOP present examples of reporting directly on the subject matter because that is industry practice.
37. The first standard of reporting in AT section 101 specifies that "the practitioner must identify the subject matter or the assertion being reported on and state the character of the engagement in the report." Accordingly, for engagements covered by this SOP, the practitioner is required to clearly indicate in the report whether a verification, performance examination, or both have been performed. The GIPS standards require that the report state the period(s) covered.
38. Appendix C of this SOP presents an illustrative report for a verification. Appendix D of this SOP presents illustrative reports for a verification and performance examination.
39. The GIPS standards require that the verification report include a statement indicating that verification does not ensure the accuracy of any specific composite presentation (see the verification report in appendix C of this SOP). This disclaimer of opinion is an acknowledgement of the fact that the practitioner cannot control whether the verification report may accompany a composite presentation

distributed by the firm, even though no performance examination was conducted.

40. The GIPS standards specify that the compliant presentation for the specified composite(s) that is (are) the subject of a performance examination report must be included in, or attached to, the performance examination report. The practitioner may request that the firm's composite presentation for an examined composite disclose that publically available benchmark returns have not been examined by the practitioner to avoid the implication that the practitioner is providing assurance on the development of the benchmark. The practitioner also should add a paragraph to a performance examination report disclaiming an opinion on composite presentations included or attached for any periods that were not examined by the practitioner or stating that the report does not relate to any composite presentations other than those identified in the report.
41. When a firm has changed verifiers, and prior periods presented were subject to verification or performance examination by another verifier, the firm may request that the practitioner refer to all verified or examined periods in his or her report. A practitioner may decide to refer to the report(s) of a predecessor verifier. The successor practitioner would consider the appropriateness of referring to reports on verifications or performance examinations conducted by other verifiers in the specific circumstances. If the successor practitioner decides to refer to the report(s) of the predecessor verifier, the report would be modified appropriately. Appendix E, "Illustrative Attest Report: Successor Practitioner Report—Verification and Performance Examination," of this SOP contains an example of a successor practitioner's report referring to the predecessor verifier's performance examination report.

Other Information

42. When other information is included in a document containing a composite compliant presentation or presentations and the practitioner's performance examination report thereon to which the practitioner, at the firm's request, devotes attention, the practitioner's responsibility

with respect to other information in such a document does not extend beyond the information identified in his or her report, and the practitioner has no obligation to perform any procedures to corroborate any other information contained in the document. However, the practitioner is required to read the other information not covered by the practitioner's report and consider whether it or the manner of its presentation is materially inconsistent with the information appearing in the practitioner's report. If the practitioner believes the other information is materially inconsistent with the information appearing in the practitioner's report, the practitioner is required to request the firm to revise the other information. If the other information is not revised to eliminate the material inconsistency, the practitioner may conclude that it is necessary to withdraw the report and may wish to seek legal advice.

43. If, while reading the other information, as required in paragraph 42, the practitioner becomes aware of information that he or she believes is a material misstatement of fact that is not a material inconsistency, as described in paragraph 42, the practitioner is required to discuss the matter with the firm. In connection with this discussion, the practitioner is required to consider that he or she may not have the expertise to assess the validity of the statement, there may be no standards by which to assess its presentation, and there may be valid differences of judgment or opinion. If the practitioner concludes there is a valid basis for concern, the practitioner is required to propose that the client consult with some other party whose advice may be useful, such as the entity's legal counsel. If, after discussing the matter, the practitioner concludes that a material misstatement of fact remains, the action taken will depend on the practitioner's judgment in the circumstances. The practitioner is required to consider steps such as notifying in writing the client's management and, when appropriate, those charged with governance of his or her views concerning the information and consulting legal counsel about further action appropriate in the circumstances.

Effective Date

44. This SOP is effective upon issuance.