



**The Japanese Institute of  
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CFA Institute

Global Investment Performance Standards

Re: Exposure Draft of the 2020 GIPS Standards for Verifiers

915 East High Street

Charlottesville, VA 22902

USA

**Comments on the Exposure Draft of the 2020 GIPS Standards for Verifiers**

The Japanese Institute of Certified Public Accountants (JICPA) welcomes the opportunity to comment on the Exposure Draft of the 2020 GIPS Standards for Verifiers (ED).

Please find below our comments to the question items raised in the ED.

**Question 1)**

Do you agree with all the required verification and performance examination procedures?

Comment:

We do not agree.

The testing procedures for verification proposed by the ED substantially set additional verification objectives, rather than indicating specific procedures (e.g., cross-check, observation, inquiry, and recalculation). In other words, they require the verifier to determine directly that the results of past calculations were consistent with the standards, that disclosure is comprehensive, and that composites are comprehensive and complete.

By contrast, the opinion required in the verification report is an opinion on the design and implementation of the firm's policies and procedures and is not intended as an opinion on the accuracy of figures or the comprehensiveness of disclosure and the comprehensiveness and completeness of composites themselves.

Thus, we consider that this ED has still not achieved the stated purpose of the change in opinion language described in the executive summary (“We have updated the verification report wording to more closely align it with the required testing procedures”).

Comparison between the required verification procedures proposed and the opinions in verification reports shows little direct connection between the two in the first place, and most of the procedures could be regarded as assertions regarding the reliability of firms’ claims of compliance with the GIPS standards.

Procedures necessary to reach an assurance conclusion on the subject matter vary according to the nature of a firm’s business, its size, and other aspects of the firm’s internal and external environment, making it impossible to decide on minimum procedures that apply across the board. We therefore believe that it is inappropriate to set required procedures as part of standards. Accordingly, we propose conducting verification or performance examination in conformity with the International Standard on Assurance Engagements (ISAE) 3000 as an alternative option to required procedures.

**Question 2)**

Are there areas of testing that should be added? If so, please explain.

Comment:

Procedures necessary to reach an assurance conclusion on the subject matter vary according to the nature of a firm’s business, its size, and other aspects of the firm’s internal and external environment, making it impossible to decide on minimum procedures that apply across the board. We therefore believe that the concept of required procedures is fundamentally incongruous. Accordingly, we propose conducting verification or performance examination in conformity with ISAE 3000 as an alternative option to required procedures. Comparison between the required verification procedures proposed and the opinions in verification reports shows little direct connection between the two in the first place, and most of the procedures could instead be regarded as assertions regarding the reliability of firms’ claims of compliance with the GIPS standards.

**Question 3)**

The wording for verification reports and performance examination reports has changed. Considering these changes:

- a) Is it sufficiently clear that verification does not provide assurance on the firm’s or asset owner’s claim of compliance in its entirety? If applicable, please provide suggested wording

in your response.

Comment:

We do not think it is clear.

It is extremely difficult for users of verification reports to understand the difference between assurance that the firm's policies and procedures were appropriately designed and implemented for all period(s) being verified and assurance regarding the firm's or asset owner's claim of compliance with the GIPS standards in its entirety. Nonetheless, the verification report wording in question does not clearly explain the mismatch that exists between the verification report users' expectations of assurance on the firm's or asset owner's assertion that they have complied with the GIPS standards (the claim of compliance) and the verifier's opinion, and this could cause an expectation gap or misunderstanding.

We believe it would be appropriate to make the verification opinion into an assurance that the firm's policies and procedures were appropriately designed and implemented as at a specified date.

We also believe that, in addition to the wording of the opinion itself, the standards should provide detailed explanation and consideration relating to the subject matter of the verification and performance examination on which the verification opinion is based.

**Question 3)**

The wording for verification reports and performance examination reports has changed.

Considering these changes:

- b) Do you agree with the change that the verifier's report opines on both the design and implementation of policies and procedures, for all period(s) being verified?

Comment:

We do not agree.

It is extremely difficult to understand the difference between assurance that the firm's policies and procedures were appropriately designed and implemented for all period(s) being verified and assurance on the operating effectiveness of the firm's policies and procedures. Consequently, this could cause a gap or misunderstanding between report users' expectations of assurance regarding compliance with the GIPS standards and the verifier's opinion.

Furthermore, the ED as it stands includes no provisions relating to materiality. In cases where a verifier is asked to express an opinion for a certain period of time, it may be impossible for the

verifier to express an opinion since the verifier cannot make a judgment regarding the materiality of an error that existed at some point during the relevant period, even if the firm modified its policies and procedures to prevent reoccurrence of the identified error.

Paragraph 48R of ISAE 3000 requires procedures relating to operating effectiveness to be performed in certain cases as part of a reasonable assurance engagement. According to ISAE 3000, in such cases, the verifier cannot provide reasonable assurance when expressing an opinion for a certain period of time unless procedures relating to operating effectiveness are performed. The ED as it stands is therefore likely to result in confusion in practice as to whether the verifier will perform procedures relating to operating effectiveness despite providing no assurance in that regard and provide the same practical reasonable assurance as hitherto, or whether the verifier will omit the procedures relating to operating effectiveness and provide a limited assurance differing from that provided hitherto.

Given the objective of expressing an opinion regarding policies and procedures rather than operating effectiveness, we believe that verification opinion should be expressed for a specified date. Meanwhile, we believe that making no reference to operating effectiveness would make it impossible to express an opinion providing the same level of assurance as is currently provided in practice (i.e., reasonable assurance) with regard to implementation of policies and procedures established and maintained for compliance with GIPS for all period(s) being verified.

**Question 3)**

The wording for verification reports and performance examination reports has changed. Considering these changes:

- c) Do you believe that the verifier's report, and potentially the related claim of compliance, should refer to the fact that verification and performance examination procedures are conducted on a sample basis?

Comment:

If verification or performance examination in conformity with ISAE 3000 is added as an option, we believe it would be sufficient to state in the report that procedures in conformity with the ISAE 3000 have been performed.

**Question 4)**

Do you believe the approach taken for asset owners as described above is the right approach?

Comment:

As we believe there are no cases of claim of compliance with the GIPS standards by asset owners in Japan, we are unable to comment at the present time.

**Question 5)**

Do you agree with the effective date of the 2020 GIPS Standards for Verifiers?

Comment:

We do not agree.

We believe that further discussion and consideration is required regarding changes to the standards relating to verification and performance examination.

We believe that such discussion and consideration should be pursued patiently and carefully, independently of the schedule for implementation of revisions to other parts of the 2020 GIPS Standards.

**Other**

1. We believe that the following possibilities should be explored with regard to the form that verification and performance examination should take in future.

(1) Abandon verification and focus solely on performance examination

Firms' customers (i.e., investors) who are the users of GIPS reports, in our view, are interested in whether or not the GIPS report relating to the strategy or pooled fund in which they are seeking to invest has been prepared in compliance with the GIPS standards.

We believe that, during the time before the GIPS standards are successfully promulgated in many countries, verification played a role in promoting proper implementation and awareness of the standards. As it has already fulfilled that role to a certain extent, however, we recommend exploring the possibility of focusing solely on performance examination, which is in line with the real needs of customers (i.e., investors).

(2) Modify verification, making performance examination a prerequisite

Considering the needs of the customers (i.e., investors) mentioned in (1) above, if verification is continued, we suggest making performance examination a prerequisite.

We believe it appropriate that the subject matter for verification should be whether or not the firm's policies and procedures were designed and implemented in compliance with the GIPS

standards at a point in time, as in SOC 1 Type 1 reports.

(3) Modify verification if neither (1) nor (2) above is adopted

If the goal is to meet the needs of customers (i.e., investors) through verification alone, without making performance examination a prerequisite, we believe that, as a means of reducing the gap between the expectations of customers (i.e., investors) and the verifier's opinion, it would be preferable for the verifier to express an opinion on whether or not the firm's policies and procedures were designed and implemented in compliance with GIPS standards *and* operated effectively for a certain period of time.

2. Materiality thresholds when judging risks and errors

We believe that for both verification and performance examination it would be advisable to establish a frame of reference regarding materiality for use by practitioners during engagements and a concept of materiality as a basis for forming an opinion when an error has been identified. In conjunction with establishing the concept of materiality, we also recommend reviewing the current situation whereby the only two outcomes envisaged are a positive opinion or non-issue of a verification report.

3. Regarding opinions expressed in verification reports

For both verification and performance examination the only two outcomes currently envisaged are a positive opinion or non-issue of a verification report, but we suggest that verifiers should also be allowed to express conclusions such as qualified conclusions and adverse conclusions, or to disclaim a conclusion, in accordance with paragraphs 66, 74, and 75 of ISAE 3000.

Yours sincerely,

Kanako Ogura

Executive Board Member - Industry Audit Practice

The Japanese Institute of Certified Public Accountants