

February 25, 2005

CFA Institute
CFA Center for Financial Market Integrity
Reference: Guidance Statement on Error Correction
P.O. Box 3668
Charlottesville, Virginia 22903
USA

Proposed Guidance Statement on Error Correction

Dear Sir or Madam:

We appreciate the opportunity to comment on the GIPS Proposed Guidance Statement on Error Correction.

We agree there is a need to provide greater guidance with respect to correction of errors and generally support the proposed Guidance Statement as well as its effective date. Since 1997, the AIMR-PPS Q&A database has included a question on the appropriate treatment of an error correction. This Q&A requires a firm that has an error to report corrected information to anyone who may have relied on the incorrect information. As we have observed investment managers in the U.S. and Canada comply with this requirement, we have gained insight into the practical issues surrounding the application of this guidance. Our comments follow.

1. The Guidance Statement should apply to all types of errors that impact performance or performance-related disclosures. We believe that a correction of a disclosure item may be just as important as a correction to an annual composite or benchmark return.
2. The Guidance Statement states that “The guidance statement is concerned only with error correction for GIPS-compliant presentations; however, firms should consider whether they require similar controls for specific client reports.” Except for this sentence, references to existing clients should be removed, as we believe that client reporting is not covered within the GIPS standards and should not be covered by this Guidance Statement.
3. We believe the Guiding Principles ought to be required for all compliant firms. As currently worded, a firm “should” consider the Guiding Principles. However, the interpretation then says that a firm “must” do certain actions. The use of “should” versus “must” needs clarification. We believe that each firm must be required to consider the Guiding Principles, and must be required to establish policies and procedures for the treatment of error correction.
4. We note that the concept of republishing can often be a complicated and judgmental process. For example, what otherwise might be considered a small

error could be viewed as material for certain product types such as passive index strategies where one basis point might be viewed as significant by consultants and prospects.

5. We suggest including an example of policies and procedures on error correction in the Guidance Statement, which would include a materiality guideline.
6. The Guidance Statement should make reference to firms being cognizant of regulatory considerations regarding errors.
7. Finally, at Application 2, we recommend removing the words “concerning the composite’s creation date” from the question. Our proposed response: The lack of a required GIPS disclosure would be considered an error. Based on the firm’s previously established policies and procedures, the firm must then determine if the lack of including the disclosure would warrant restating or republishing.

The Committee thanks the IPC for the opportunity to contribute its comments. We would welcome the opportunity to discuss our comments with you.

Sincerely,

AIMR-PPS Implementation Committee