

February 28, 2005

CFA Institute
CFA Centre for Financial Market Integrity
Re: Guidance Statement on Error Correction
Re: Guidance Statement on Verifier Independence
P.O. Box 3668
Charlottesville, Virginia 22903

To Whom It May Concern:

Please find our comments to the Guidance Statements on Error Correction, and Verifier Independence attached. Please feel free to call if you have any questions or would like to further discuss any particular items.

Thank you for this opportunity to comment to your organization.

Sincerely,

Melvin W. Ashland, CPA, PFS
Partner

Tobin S. Cochran
Partner / President

Kimberly A. Cash, CPA
Partner

Timothy S. Simons, CFA, CFP
Partner

Attachment

Guidance Statement on Error Correction

Comments Requested

1. Yes, we support the effort to develop provisions to be added to the GIPS standards addressing the guidance of error correction. We get questions from clients all the time whether or not they should restate based on this or that error, and we always put it back to them to be reasonable and consistent. This guidance statement just takes it one step further – be reasonable and consistent in writing.
2. Yes, we agree that the guidance should be applied to all types of errors. We do have one partner from the school that would like to at least see mentioned for consideration that managers create policies that address restatement and republishing if the error caused performance to be overstated, but willing to leave it to the firm if performance is understated.
3. Yes, we agree that firms should not make retrospective changes to previously presented information.
4. Yes, the GIPS standards should require firms to have documented policies and procedures for correcting errors.
5. Yes, we agree with the guiding principles provided to firms when determining how to handle errors.
6. We agree with the application questions and responses provided.

The “Reporting of errors” paragraph beginning at the bottom of page five states that material corrected errors must be communicated. We suggest expressly stating that corrected errors deemed material, as defined by the firm, must be communicated.

Guidance Statement on Verifier Independence

Comments Requested

1. Yes, we support the principles established in this Guidance Statement.
2. Concerning “other elements involved in verifier independence” that are not included is the issue of the verifier being a client of the firm to be verified. Since most of the firms being verified are investment advisers, it would be a major conflict of interest for the verifier to be a client of the adviser. That would be the case if the pension plan of the verifier or affiliate of the verifier is a client of the adviser. Or if the verifier or members of the verification team were invested in products such as mutual funds, that are advised by the adviser. Just as an analyst must disclose ownership in a firm he is analyzing, a verifier must disclose a relationship with the firm it is verifying.

The last sentence in the first paragraph in the Introduction should say, “Additionally, this guidance is not intended to replace or superseded any applicable independence guidance for a verification firm that is subject to *more stringent* professional independence guidance.”

The third paragraph in the Introduction should add the following sentence at the end, “This discussion should also be held for services that the verification client provides to the verifier.”

3. Yes, January 1, 2006 is a reasonable date to apply this guidance.

1) Guiding Principles: The second bullet point should be rewritten to put the onus for discovering conflicts of interest with the verifier. Perhaps, “The verification firm must consider the entire relationship with the prospective verification client when considering independence issues, and to the best of their ability, disclose in writing to the prospective client how any conflicts of interest will be resolved.”

2) The assessment of Verifier Independence can be divided into four major topics: should add a fifth major topic:

5. Can the verification client provide advisory services to the verifier? Yes, the verification client can provide advisory services to the verifier, as long as those services are disclosed by the verification client to the users of its reports.

3) The top of page five, which lists bullet points that “might” create an independence issue, addresses providing a source or template/system for performance information. Page seven, item four, states that as long as the client takes full responsibility for the calculation methodology (of a template), there is no violation of independence. We recommend including a statement on page five to clarify that these issues could create an independence issue only if the client does not take full responsibility for the information. We further suggest adding language somewhere in the guidance statement explicitly stating that any tools or templates provided to a client are acceptable, as long as the firm invests the time to take full ownership applying the tool to its business (perhaps via a formal sign-off letter).

4) In the list regarding performance related services that might not create an independence issue include, add:

Providing generic samples of client presentations.

5) The top of page six, which lists bullet points for verifier issues that might create independence issues, addresses “preparing compliant presentations.” We suggest making a point to clarify that a verifier should not prepare marketing presentations for a client, but can provide disclosure checklists or templates that the firm can use in preparing its own marketing materials.

Further, we just want to point out that we do like the bullet point about functioning as a data warehouse being a conflict. In the books and records guidance, one of the points addressed was that firms that have been verified might not need to retain as many records as firms that were not. We see some contradiction here, but we fall squarely in agreement with this guidance statement’s perspective on the issue. While we are happy to help clients where we have duplicate records that they might need, we never want them to rely on us for that, and definitely see that as a management function that could influence opinions in an ongoing relationship (because of the ongoing nature of record retention).