

Guidance Statement on Error Correction

1. Do you support CFA Institute's effort to develop provisions to be added to the GIPS standards addressing the guidance of error correction?

Yes. However, as in many cases before, I regard these as too prescriptive and onerous.

2. Do you agree that the guidance should be applied to all types of errors?

Yes, however the importance of materiality and cost/benefit (the effort of the remedy should be in proportion to the magnitude of the error) should be emphasised.

3. Do you agree with firms not making retrospective changes to previously presented information?

Yes. If the standards are to work in a practical sense, this must be possible.

4. Should the GIPS standards require firms to have documented policies and procedures for correcting errors?

Yes. However, these can be broad if the manager wishes, ie not as detailed and prescriptive as the process suggested. They may also stipulate that in certain circumstances even material errors will not be retrospectively corrected, in particular if the existing client whose portfolio is affected by the error does not want historic performance to be re-calculated. He/she may prefer an adjustment to the current period, for instance if results have been made public, it is the company's financial year end, the accounting books are "closed", etc

5. Do you agree with the guiding principles provided to firms when determining how to handle errors?

Yes.

6. Do you agree with the application questions and responses provided?

No. In particular, I have comments on the following questions and responses:

2 and 3. I do not believe that the lack of a required GIPS disclosure should be considered a material error by default. This should depend on the materiality of the error itself, which will be determined in accordance with the manager's definition of material.

4. As the standards do not specify which measure of dispersion to use, how can it be an error to change from one method to another? Possibly the only "error" here is that the manager changed the methodology used without full disclosure which, as I note above, should not automatically be a material error. I also don't understand how it's possible to provide a disclosure which will ensure "the prospective client fully understands the change". The manager could only be confident of full understanding (and even then it's not assured) by speaking to every prospective client receiving the amended presentation which, of course, is almost certainly impossible.

6. The disclosure relating to the corrected error should only need to be made once, on the revised presentation. As the error is corrected going forward, there is no need for it to appear after this. On the contrary, this would, I believe, create further confusion.

7. Other

I do not believe it necessary for firms to disclose that their policies and procedures on error correction are available on request but simply for them to have them in place. This is not material information and there are enough disclosures already!

In some cases, it is not possible to keep track of where the GIPS compliant information has gone to, eg if published on the firm's website. In these circumstances, a notice regarding the error and locating the amended version, on the same medium as the original error (similar to, eg, corrections in newspapers) should be sufficient.

"Reasonable" steps to notify clients and prospective clients affected by the error must be emphasised here. Internal controls to ensure that "ANY prospective client that the firm believes relied upon the incorrect information is updated with the correct information" would be excessive and unworkable.

"Errors" often occur as a result of events entirely outside of the manager's control, eg the update of index or Universe benchmark data. Where Universe data suppliers know they are the source of benchmark data, they should be strongly encouraged to adopt a "freeze" policy where, once finalised, peer group data can no longer be changed. In particular, Russell/Mellon's CAPS service is prone to changes as historic performance data is added for new entrants, sometimes considerably after the original results are made available. Personally speaking, this has been almost the only cause of "errors" since we became GIPS verified four years ago. I have raised it with them on many occasions, however to no avail. I am sure pressure from the CFA Institute would help. Fortunately, we use the medians as benchmarks less now, this being one of the key reasons why we changed to index benchmarks for in-house funds.

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