

CFA Institute  
CFA Centre for Financial Market Integrity  
P.O. Box 3668  
Charlottesville, Virginia 22903  
USA

23 February 2005

Dear Sir/Madam

### **GUIDANCE STATEMENT ON ERROR CORRECTION**

With regard to the proposed GIPS Guidance Statement on Error Correction, HSBC Institutional Fund Services has the following comments.

- 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.

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

Yes. However, the guidance document is biased towards calculation errors. As a verification firm, it is our experience that the majority of material errors encountered during a verification are the result of firms incorrectly allocating accounts to composites or failing to meet the disclosure or presentation requirements of GIPS.

It is also our experience that firms have robust policies and procedures in place to ensure that missed trades, mishandling of corporate actions, pricing problems, et al, are captured and corrected before performance results, and specifically composite information is produced.

Therefore we would suggest that the document be balanced so that it covers all errors equally and not be targeted specifically to calculation errors, as stated on page 4 of the guidance statement.

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

In some circumstances firms should not be required to make retrospective changes. On the whole we agree with guidance given in the paragraph covering 'Reporting of errors (republishing) to prospective clients'.

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

Yes. This would be consistent with the requirement in the revised version of GIPS, which requires firms to document all policies and procedures.

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

On the whole yes. However, in the 'Written Policies and Procedures section' we do not support the provision that allows firms to disclose that performance figures stated are “preliminary numbers; changes may occur as a result of reconciliation (or “subject to change”). We believe this provides firms with a “get-out” clause for not taking due care in the construction, calculation and presentation of composite information.

We also noted that the 'Definition of Materiality section' has the following sentence: “Firms should disclose that their policies and procedures on error correction are available on request”. This disclosure is not stated in the revised GIPS and therefore should be deleted from the guidance statement or added to GIPS.

Adding quasi requirements via guidance statements - that under the revised GIPS 0.A.15 must be followed - will make the process of achieving and maintaining compliance more cumbersome than it needs to be. Therefore we are of the opinion that all requirements should be contained within the GIPS standards only, and not in guidance statements.

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

For the most part, yes.

Yours faithfully

David A Flint  
Consultant, Performance Consultancy