

February 7, 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/Madam:

PricewaterhouseCoopers LLP appreciates 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.

Our comments are provided in the attached appendix. If you have any questions regarding our comments, please feel free to contact Kelvin Laing-Williams in London at 44 (20) 7804 1707 or Peter McNamara in New York at (646) 471-8743.

Yours sincerely,

PricewaterhouseCoopers LLP

Appendix: PwC Comments on the Proposed Guidance Statement on Error Correction (the “Guidance Statement”).

General Comments

Generally, we welcome the proposed Guidance Statement. However, in order to enhance the clarity of this Guidance Statement we recommend that it be broken out by “requirements” and “recommendations”. Currently, words such as “should” and “must” are used, which may be confusing and subject to interpretation as to what is required as opposed to recommended.

The document indicates that it is targeted to calculation errors and that the concepts provided should be applied to all types of errors. We believe that the Guidance Statement should apply to all types of errors that impact performance or performance related disclosures.

We suggest including an example of robust policies and procedures on error correction at the end of the Guidance Statement.

Guiding Principles

We believe that the Guiding Principles section needs be clarified to make it clear that policies and procedures on error correction are required. The present language indicates that firms “should” consider the Guiding Principles. As stated above, we believe the Guidance Statement should be broken out by requirements and recommendations. We also believe that consideration of the Guiding Principles ought to be required.

Written Policies and Procedures

Firms should not be allowed to publish GIPS composite presentations before appropriate controls are in place and operating effectively, especially as it relates to data quality. Statements that the presented performance is subject to change may potentially result in misrepresentation of performance returns. We understand that there may be circumstances when preliminary results need to be issued. However, we do not believe that such results should include the GIPS claim of compliance.

Definition of Materiality

We suggest that the document indicate that different materiality levels can be established for republishing and restating. We also suggest considering adding text in this section that states that republishing or restatement is allowed but not required for items not deemed to be material.

Reporting of Errors (Republishing) to Prospective Clients

The Guidance Statement requires firms to “proactively report material corrected errors not only to their existing clients but to ANY prospective client that the firm believes relied upon the incorrect information, including consultants and verifiers”.

Client reporting should not be covered by this Guidance Statement. If the client relied upon incorrect information when they were a prospect then the client would obviously need to receive notification of a material error. If other parties, including consultants and verifiers that relied upon the information are to be covered by this guidance, then the text will need to be clarified. This would include the republishing and restating definitions which are contained later in the paragraph.

We believe that the requirement to proactively inform prospective clients could be met if a firm has a policy which would apply to those prospective clients who are still in the process of selecting their investment manager or may be reasonably expected to still be relying or have relied on the performance information originally provided.

Effective date

The language in this section should state that this Guidance Statement must apply to all firms starting January 1, 2006.

Application Questions:

Application numbers 2 and 3 state that the lack of a required GIPS disclosure would be considered a material error. Although this would frequently be the case, we believe that the lack of disclosure could still be deemed immaterial depending on the existing facts and circumstances. For example, if the composite creation date was not disclosed on a new composite, republishing might not be necessary. We suggest that the text be changed from "would" to "could".

Application number 6. There is a need for clarification in this area. If it is a recommendation that disclosure should remain in the presentation for 12 months, the Guidance Statement should clearly state this as a recommendation. If the intention is to recommend what the disclosure should include, we believe that this too should be clearly included in the Guidance Statement.

Various Structural Comments:

We suggest that under the heading Background, the use of the words "missed" on page 3 be reworded to "mishandled" to be consistent with other language in the document. On Page 4, for clarification purposes, we suggest that 2 and 3 be reworded as follows:

Item 2- "The correction will have little or no impact on the previously reported *performance returns or related disclosures.*"

Item 3- "The error will be captured and corrected in a subsequent reporting period. *However, this could impact other disclosures including any risk statistics derived from performance returns. Firms should be cognizant that not all errors will be completely corrected in subsequent periods. For example, valuation errors, particularly if cash flows have taken place, may result in a permanent performance change which is not corrected in subsequent periods. Materiality of errors should still be considered.*"

Reporting of errors should be included under Guiding Principles to be consistent with the headings on page 5.

The word republishing should be removed from the paragraph title “Reporting of errors (republishing) to prospective clients” as this section appears to cover both republishing and restatement.

You might wish to consider the concept of materiality in terms of this Guidance Statement as follows:

- Level A: the materiality of the discovered error requires neither restatement nor republishing
- Level B: the materiality of the discovered error requires restatement only
- Level C: the materiality of the discovered error requires both restatement and republishing. The republishing can be ensured by providing an appropriate disclosure in the composite reports and also (if necessary) by proactively contacting a prospective client and any other appropriate parties on the error correction.