

The Security Analysts Association of Japan

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Investment Performance Council
c/o CFA Institute/CFA Centre for Financial Integrity
P.O. Box 3668
Charlottesville, Virginia 22903

Re: Guidance Statement on Error Correction

Dear Sir/Madam,

Thank you for the opportunity to comment on the proposed Guidance Statement on Error Correction.

The Security Analysts Association of Japan (SAAJ) is the sponsor of the SAAJ Investment Performance Standards (SAAJ-IPS[®]), the Japanese Version of GIPS. Following are our comments based on discussion within the SAAJ-IPS Committee, consisting of professionals from a wide range of the investment industry such as various kinds of asset managers, pension funds, consultants, and verifiers.

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

We support development of the Guidance Statement on Error Correction.

We understand that the proposal is not to develop "provisions" to be added to the GIPS standards but "guidance" regarding error correction.

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

While we basically agree that the guidance should be applied to all types of errors, we would like to suggest revisions as follows:

A. Types of errors

The "Background" section addresses the issue focusing on reconciliation differences (resulting in calculation errors) and states that the guidance statement is targeted at calculation errors.

However, the section should address both types of errors, calculation errors and other ones, with similar weight, and should clarify that the guidance statement is applied to both because the actual frequency of non-calculation errors seems relatively higher. In fact, half of "Applications" in the guidance statement deal with non-calculation errors.

B. Scope of the guidance statement

- (1) The first part of the 4th paragraph (p4) “this guidance statement is concerned only with error correction for GIPS compliant presentations; ...” (4th paragraph, p4) is vague – “is applied to” is more appropriate and clear.
- (2) On the same part, it should be clarified that the guidance statement is applied to error correction for GIPS presentations including supplemental information.

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

- A. We disagree. We think that firms should retrospectively correct errors as soon as practical in accordance with the policies and procedures they have in place.
- B. With respect to firms not making retrospective changes to previously presented information, the guidance statement addresses three points on p4. Since point 1 states “This response, however, is not justified”, it should be more clearly mentioned in the guidance statement that firms should make retrospective changes to previously presented information.

Points 2 and 3 are rather related to the issue of “materiality” and thus should be incorporated into “Definition of Materiality” (p5).

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

- A. We agree that the guidance statement should require firms to have documented policies and procedures for correcting errors because error correction should be consistently managed within the firm. (We understand that it is required in this “GIPS guidance statement”, not “GIPS standards”. Does the question mean that the requirement should be added to the GIPS standards as a provision?)
- B. The last paragraph of “Written Policies and Procedures” (p5) should be modified as follows:

“The written policies and procedures should include a definition of materiality, the error correction process, the reporting of errors to clients, and should also consider guidance as discussed below.”
- C. The 3rd paragraph in “Written Policies and Procedures” should be deleted because no GIPS-compliant presentation should be published prior to reconciliation. The GIPS standards require firms to take all steps necessary to ensure that they have satisfied all of the requirements of GIPS before claiming compliance with GIPS, and we cannot understand why only “reconciliation” (that is an important step to secure the accuracy of input data) is treated as an exception.

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

We suggest revisions as follows:

A. Definition of Materiality

Only the definition of materiality with respect to errors should be addressed in the “Definition of Materiality” section, not linking the issue with a change and reporting of errors (that can be separately addressed in following sections), since such might induce firms to formulate a definition favorable to them.

The 3rd paragraph (“Firms should disclose that their policies and procedures on error correction are available on request”) should be moved to the “Written Policies and Procedures” section.

B. Restating/Republishing/Reporting

- (1) The terms “restating” (or “restatement”), “republishing”, and “reporting” should be clearly defined. Also, the relationship between “reporting” and “restating/republishing” should be clarified. The usage of the terms is inconsistent within the guidance statement and very confusing.

In practice, these are quite important for firms, and thus the explanation should be reorganized making points clearer: i.e. the restating and republishing issue should be addressed as a whole, for instance, under “Error Correction Process” or “Reporting of errors to clients” although it is currently addressed in “Definition of Materiality” and “Reporting of errors (republishing) to prospective clients”.

- (2) Republishing:

As mentioned above, the definition of “republishing” is different between the “Definition of Materiality” section and the “Reporting of errors to prospective clients” one, and is not understandable. It seems that “republishing” and “reporting” are confused (the definition of “republishing” given in the “Reporting of errors” section is rather the definition of “reporting”).

We understand that “republishing” is correcting previously presented information *and* publishing the corrected information to existing and prospective clients who received incorrect information before, and it should be defined accordingly. To whom the corrected information is published should not be limited to “prospective clients” but both existing and prospective clients *who received incorrect information before*.

Also, more details should be addressed on practical issues such as:

- There are two major methods of republishing: preparing errata sheets concerning incorrect parts only or re-preparing presentation material (composite report, composite list, etc.) incorporating corrected information. The decision depends on firms’ policies and procedures.
- The year for which the error occurs, the date of correction, and the

content of correction (if presentation material itself is re-prepared) should be clarified.

- Whether it is allowed to only republish the latest presentation (that includes past years' information), and not all presentations made on an annual basis.

(3) Reporting:

As already mentioned, the relationship between “reporting” and “republishing” is vague and should be clarified to avoid any confusion.

The title of “Reporting of errors (republishing) to prospective clients” (the last paragraph, p5) should be changed to “Reporting of Errors to Clients” because errors should be reported not only to existing clients but also prospective clients *who received incorrect information before*.

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

We suggest revisions as follows:

Application 3:

As already discussed above, the usage of the term “republishing” seems inconsistent with the other parts of the guidance statement, and the relationship between “reporting” and “republishing” is vague. These should be revised.

Application 4:

Similarly, the meaning of “republish the presentation” is unclear. In addition, what does “a disclosure” (in the description “A disclosure must also be provided to ensure that the prospective client fully understands the change”) represent?

Application 6:

We think that specifics of corrections should also be identified in the disclosure.

It is stated that the disclosure should remain on the presentation a minimum of twelve months. Based on what reasons does such specific period is provided? The procedures (specific disclosure period) is important and thus should be discussed in the “Reporting to Clients” section.

7. Others

The proposed Guidance Statement assumes the one-on-one presentation. The error corrections on advertisements should also be addressed in other guidance statement.

The transfer of portfolios among composites is prohibited in principles (except for meeting certain conditions). Is not necessary to explain the exception for error corrections in the Guidance Statement?

We cannot understand the meaning of “frozen” time period. Please explain.

It is unclear what is informed to any and all recipients of the GIPS compliant presentation in the 3rd paragraph of p4.

Sincerely yours,

The Security Analysts Association of Japan