Comments on two proposed GIPS Guidance Statements

Dear Madam, Dear Sir,

On behalf of our Performance Standard experts, please accept our thanks for giving us the opportunity to comment on the two proposed Guidance Statements.

1. Guidance Statement on Error Correction

We support the guiding principles proposed by the Guidance Statement as well as the proposed effective date. The following matters, however, may need further clarification.

a. Nature of errors

In an automated and IT supported portfolio accounting environment errors due to accounting and valuation faults (for traditional investments) are usually not a major problem. This is obviously much less the case with alternative investment portfolios.

With traditional investments, our experience shows, most mistakes occur with composite allocations and disclosure maintenance. Therefore, stating that the Guidance Statements is primarily “targeted to calculation errors” sends a misleading message. We believe that the Guidance Statement should be applicable to all types of errors.

b. Materiality

We think that the concept of materiality in terms of this Guidance Statement should be defined as follows:

- Level 1: the materiality of the discovered error requires neither restatement nor republishing,
- Level 2: the materiality of the discovered error requires restatement only,
- Level 3: 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 if necessary by proactive contacting a prospective client informing him on the error correction.

Materiality should be defined in both the return impact and in relative terms (e.g. in relation to the composite assets).
c. Issuing GIPS performance presentations based on "preliminary" figures

Presentations with "preliminary numbers" should not be permitted. Every presentation should be prepared on a "best efforts" basis, using all reconciliation information available.

d. Reporting of errors 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".

We do not consider this realistic. The burden on a firm for distributing such amendments would enormous both from a cost perspective and from a reputation perspective. If, for instance, a firm discovers an error which lays 5 years back it is useless to send an updated performance presentation to all prospective clients of this firm during that period. Some of the former prospective clients may have become clients others may have chosen other asset managers and are no longer interested in receiving updated composite presentations.

We suggest adding amendments to newly issued material only and not requiring retroactively distributing corrections to all existing and prospective clients.

e. Disclosure of availability of policies and procedures on error correction

It appears to us that the Guidance Statement introduces a new recommendation on disclosure of a firm's policies and procedures on error correction. We suggest incorporating the new recommendation into “Gold” GIPS.

2. Guidance Statement on Verifier Independence

We agree with the proposed Guidance Statement. From a practical point of view it can, in some cases, be difficult for asset management firms to check and enforce the conflict-of-interest clause: When, for instance, an asset management firm is part of a large corporation containing several financial service providers it is unrealistic to suppose that the asset management firm is informed about all consulting activities that were provided by the verifier to any subsidiary of its parent corporation. We would therefore suggest the verifier being responsible for ensuring compliance with the independence clause and not the asset management firm.

We are grateful for having had the opportunity to comment on the proposed provisions and hope that our comments will be taken into consideration.

Yours sincerely,

Stefan Hoffmann