CFA Institute®
Global Investment
Performance Standards

Survey Report of Firms on GIPS® Standards Error Correction Policies

Executive Summary

In 2022, the United States Investment Performance Committee (USIPC), in conjunction with CFA Institute, conducted a survey seeking input on error correction policies used by firms claiming compliance with the Global Investment Performance Standards (GIPS®) to gain insight into how firms are complying with the error correction provisions of the GIPS standards. A survey of such policies was last done in 2014. Since then, CFA Institute released, and firms were required to adopt, the 2020 edition of the GIPS standards. The 2020 edition of the GIPS standards was updated to reflect the guidance provided within the Guidance Statement on Error Correction and to specify the recipients of corrected GIPS Reports. The USIPC decided to update the survey to provide more recent statistics and include additional topics (e.g., materiality thresholds for numerical information other than composite and benchmark returns, and whether firms have policies for errors that occur outside of a GIPS Report).

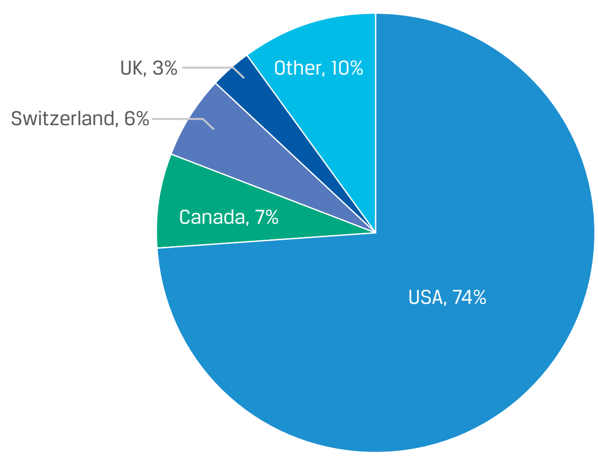
Key takeaways from the survey include the following items:

- Firms favor a two-pronged materiality threshold for assessing errors in returns, which includes both absolute and relative terms.
- The most common method for tracking errors is an Excel-based list.
- Approximately 70% of responding firms have either a formal or informal GIPS Standards Oversight Committee.
- More than one-half of the respondents apply an error correction policy to errors that occur outside of GIPS Reports.

About the Survey Respondents

Survey respondents were limited to those firms claiming compliance with the GIPS standards and included 146 firms from 14 countries around the world. Survey respondents were predominantly from the United States, with representation from other countries in North America and Europe. **Exhibit 1** presents the breakdown of respondents by country:

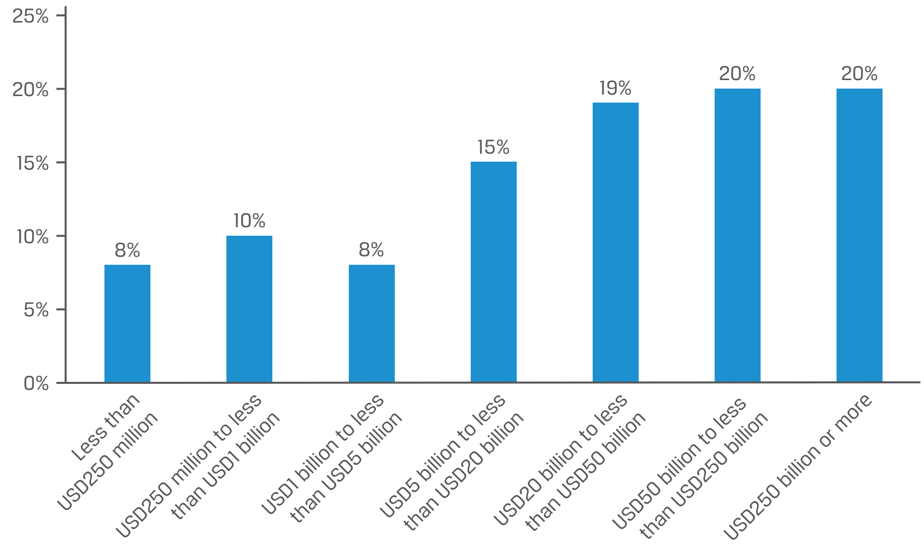
Exhibit 1. Respondents by Country



To gain insight into the firms that responded to the survey, we asked respondents to provide total firm assets under management (AUM) at the time the survey was taken. Respondents represented firms of all sizes, with larger firms (AUM of USD20 billion or more) making up the largest group of survey participants. **Exhibit 2** shows the full breakdown.

We also inquired about the types of assets managed. The overwhelming majority of respondents indicated that their firm manages a mix of asset classes. In total, 91% of respondents indicated that they manage equities, 77% manage fixed income, and 54% manage alternative investments.

Exhibit 2. Assets under Management

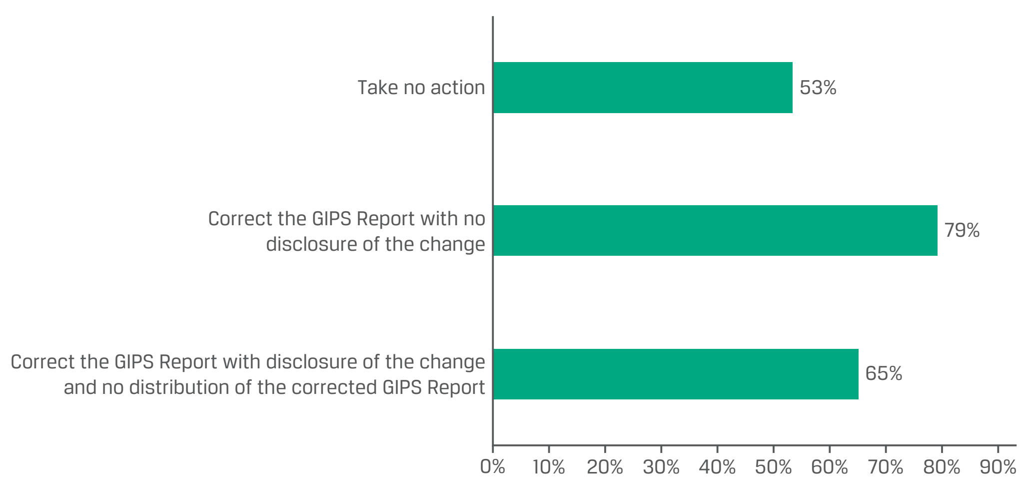


Treatment of Non-Material Errors

When a firm identifies a material error contained within a GIPS Report, as defined by its error correction policy, the GIPS standards require the firm to correct the GIPS Report, disclose the change, and provide a corrected GIPS Report to all parties that are required (as specified in the GIPS standards) to receive the corrected GIPS Report.

Unlike material errors, the GIPS standards do not require firms to take action with respect to non-material errors. Firms may, however, establish policies for dealing with non-material errors in GIPS Reports, and many firms do so. When a firm identifies a non-material error, it may handle the error in a variety of ways. The GIPS Standards Handbook for Firms identifies three options a firm may take when dealing with non-material errors in GIPS Reports. Survey respondents were asked whether they include the following options for the treatment of non-material errors as part of their error correction policies:

Exhibit 3. Options Included in Error Correction Policies for Non-Material Errors

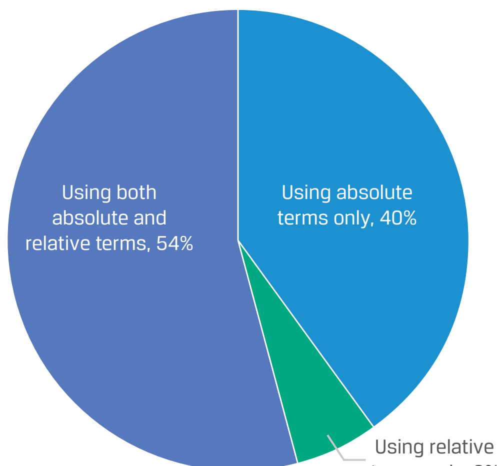


A majority of firms address the treatment of non-material errors in GIPS Reports within their error correction policies. The most popular option for the treatment of non-material errors among survey respondents was to correct the GIPS Report with no disclosure of the change. This comes as no surprise because firms will likely want to present accurate performance, regardless of how inconsequential an error may be. Additionally, approximately 65% of survey respondents indicated that their firm includes an option to update the GIPS Report as well as disclose the non-material error in the GIPS Report. When included in an error correction policy, this option is generally used for errors that are approaching the materiality threshold. Firms including this option should also consider the length of time for which disclosures will be made in the respective GIPS Report.

Assessing Errors in Returns

When determining whether errors in returns are material, firms can assess the error in absolute terms, relative terms, or both. Firms were asked in what terms the materiality of errors in returns were assessed. Approximately 6% of survey respondents indicated their firm assesses materiality in returns using only relative terms (e.g., if the correct return is 2% and the incorrect return was 1.5%, the relative change would be 33%). Forty percent indicated using only absolute terms (e.g., if the correct return is 2% and the incorrect return was 1.5%, the absolute difference would be 50 basis points). The most common practice is the combined use of absolute and relative terms.

Exhibit 4. Method for Assessing Materiality for Errors in Returns



Using a combination of both absolute and relative terms provides firms with the ability to better estimate when the judgment of a reasonable person relying on the information would have changed as a result of the misstatement. While some errors may be small in absolute terms, the relative change may be meaningful to the recipient of a GIPS Report.

Materiality Threshold for Returns

Whether firms use absolute terms, relative terms, or a combination of both in assessing the materiality of errors for returns, it is common practice for firms to include explicit materiality thresholds as part of their error correction policies. Materiality thresholds provide firms with a baseline for determining materiality and promote consistency for the treatment of errors. Furthermore, it is not uncommon for firms to set materiality thresholds that differ for asset classes because some asset classes may be more volatile or have different expected returns.

Absolute Terms: We asked firms that use only an absolute threshold to identify the option that best describes their absolute threshold range for each asset class managed. The most common threshold range varied by asset class.

Exhibit 5. Material Error Thresholds When Only Absolute Terms Are Used

	<5 bps	5–10 bps	11–50 bps	51–100 bps	>100 bps
Equities	7%	7%	32%	41%	12%
Fixed income	12%	15%	39%	24%	9%
Alternatives	14%	9%	23%	41%	14%

Relative Terms: We asked firms that use only a relative threshold to identify the option that best describes their relative threshold for each asset class managed. The most common threshold range varied by asset class.

Exhibit 6. Material Error Thresholds When Only Relative Terms Are Used

	<5%	5–10%	11–20%	21–30%	>30%
Equities	17%	33%	17%	17%	17%
Fixed income	40%	20%	0%	40%	0%
Alternatives	33%	0%	33%	0%	33%

Both Absolute and Relative Terms: For firms that use a two-pronged test for materiality, survey respondents were asked to identify the option that best describes their absolute and relative thresholds for each asset class managed. Most firms set (1) an absolute threshold between 11 and 50 basis points and (2) a relative threshold between 5% and 10%, regardless of asset class.

Exhibit 7. Material Error Thresholds When Both Absolute and Relative Terms Are Used

Absolute Change	<5 bps	5–10 bps	11–50 bps	51–100 bps	>100 bps
Equities	6%	12%	37%	33%	12%
Fixed income	7%	15%	46%	22%	10%
Alternatives	12%	15%	31%	23%	19%
Relative Change	**<5%**	**5–10%**	**11–20%**	**21–30%**	**>30%**
Equities	14%	57%	24%	5%	0%
Fixed income	13%	63%	16%	9%	0%
Alternatives	10%	60%	10%	15%	5%

Other Presentation Items

Errors may occur with other required presentation items, such as firm assets and risk measures. Firms should include guidance within their error correction policy to address the treatment of these errors. One common approach is to set relative materiality thresholds for each type of numerical information other than composite or pooled fund returns that is included in GIPS Reports. We asked firms to identify the option that best describes their relative materiality threshold for each required presentation item. The Other response, which represented the majority of survey respondents for each presentation item, could include firms that set a relative threshold above 30% or chose not to include a relative threshold in their policy.

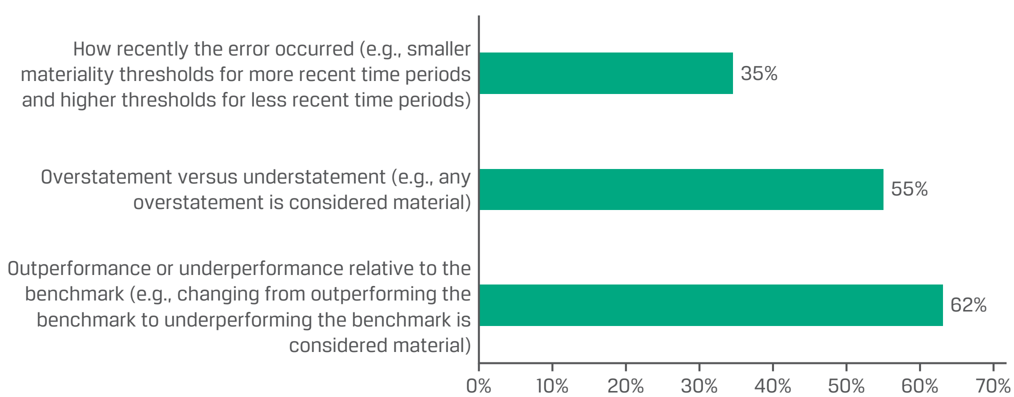
Exhibit 8. Relative Material Error Thresholds for Numerical Information Other Than Composite and Pooled Fund Returns

Relative Change	<5%	5–10%	11–20%	21–30%	Other
Composite or pooled fund assets	10%	21%	23%	21%	25%
Total firm assets	8%	23%	23%	22%	24%
Benchmark returns	16%	22%	9%	6%	47%
Internal dispersion	20%	16%	12%	7%	45%
Number of portfolios	9%	16%	20%	21%	34%
Three-year annualized ex post standard deviation	18%	17%	9%	11%	45%

Qualitative Considerations

Quantitative thresholds, such as those discussed above, are effective in helping firms understand the magnitude of errors, but considering only quantitative information may not provide a complete picture. Many firms also consider qualitative factors when assessing whether an error would have an impact on the judgment of a reasonable person relying on the information. Firms were asked whether their error correction policy includes qualitative factors when evaluating the materiality of errors. A majority of firms include qualitative factors when defining material errors.

Exhibit 9. Other Considerations for Assessing Materiality in Error Correction Policies



We also asked firms to describe other factors that are considered when assessing materiality. Some of these factors include:

- investor/shareholder perspective,
- historical errors within the composite,
- whether the GIPS Report was distributed externally,
- facts and circumstances surrounding the error, and
- errors that result in a positive return changing to a negative return.

Disclosure Errors

An error correction policy must also address errors in disclosures in GIPS Reports. Survey respondents were asked to explain how their firm determines what is considered to be a material error for disclosures that require the distribution of a corrected GIPS Report. While the responses varied widely, some commonality did exist. Many firms noted that errors in disclosures are handled on a case-by-case basis and may involve multiple departments at the firm, such as portfolio management, compliance, legal, marketing, and performance. Often, firms will designate a group of individuals from different departments to serve on a GIPS Standards Oversight Committee, which is responsible for determining the materiality of errors. See the GIPS Standards Oversight Committee section for additional discussion.

Numerous respondents described a policy that can be summarized as follows:

> A disclosure error is considered to be material if the firm determines that it is reasonably likely that such an error would have misled a prospect or impacted their decision to invest.

Many respondents noted that any missing required disclosure is considered material. A few firms noted no disclosure error is considered material. Additionally, some firms noted that they will consult their verifier when determining whether a disclosure error is material.

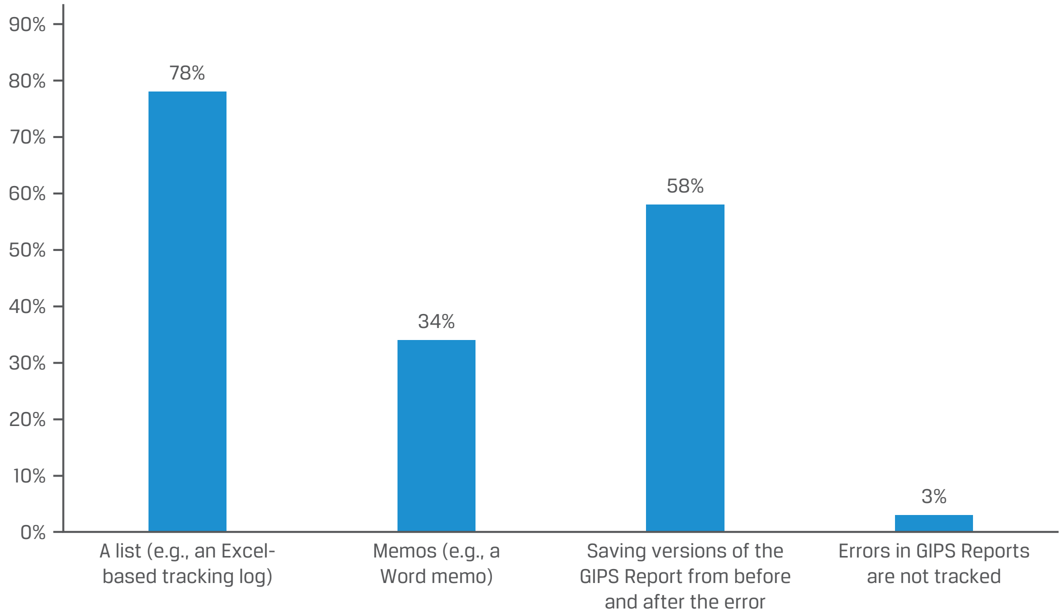
Firms offered examples of specific topics for which they consider disclosure errors to be material. The topics they mentioned are:

- fundamental changes to the strategy description,
- material use of leverage and derivatives,
- omitted disclosure of non-compliant periods,
- linked performance,
- omitted portability disclosure,
- incorrect benchmark identification,
- incorrect labeling of gross or net returns,
- missing disclosure for the total percentage of fair valued securities in a composite when the value exceeds the firm's materiality threshold for disclosure, and
- items required to be disclosed by law or regulation.

Tracking and Documentation

Tracking and documenting errors helps a firm support changes to historical results and demonstrate to a verifier, if verification is undertaken, that the firm has followed its established error correction policies. Additionally, documenting errors facilitates the distribution of updated GIPS Reports and helps create an audit trail of the steps taken by the firm after a material error has occurred. When a material error occurs, the GIPS standards require firms to provide a corrected GIPS Report to current clients, current investors, the current verifier, and any former verifiers that received the GIPS Report that had the material error. While firms are not required to track the

Exhibit 10. Methods for Tracking and Documenting Errors



distribution of GIPS Reports, doing so will allow a firm to know who must receive a corrected GIPS Report in cases where the firm determines that a previously distributed GIPS Report contained a material error.

Firms were asked how errors are tracked and documented, and the majority of respondents, 78%, noted that they use an Excel-based error-correction log that summarizes past errors.

GIPS Standards Oversight Committee

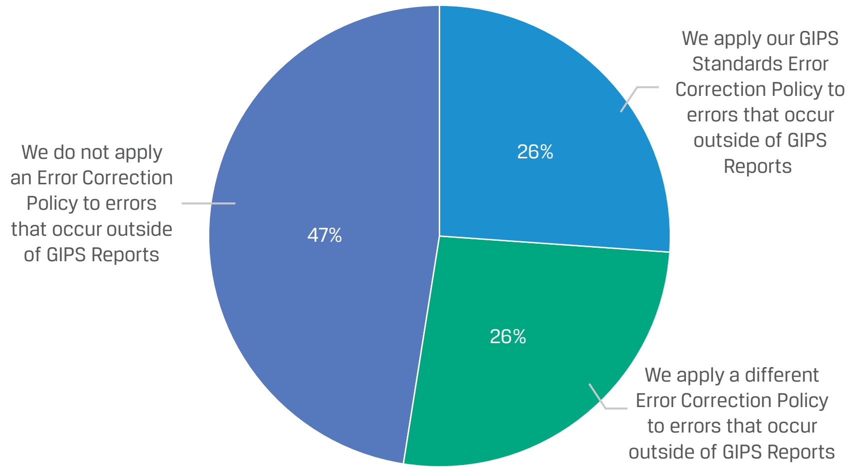
Error correction policies are generally multi-faceted, often including both quantitative thresholds and qualitative considerations, which require judgment and assessment of the facts and circumstances surrounding errors. When making decisions regarding the materiality of errors, firms should seek input from all departments within their organization to gain a comprehensive understanding of the error and its potential impact. It is common for firms to create a GIPS Standards Oversight Committee that is responsible for making these decisions.

Survey respondents were asked whether their firm has an oversight group, such as a GIPS Standards Oversight Committee, that is responsible for reviewing errors that occur. A majority of respondents, 59%, said they have such a committee. An additional 11% noted that while a formal committee does not exist, informal meetings of firm personnel are held to discuss errors associated with the GIPS standards as they occur. Firms noted these discussions include representatives from the portfolio analytics, portfolio management, risk management, legal, operations, compliance, marketing, performance, and GIPS standards reporting departments, as well as verifiers.

Errors Outside of GIPS Reports

Errors in performance reporting are not limited to what is included in GIPS Reports. Errors may occur in client reports, marketing and advertising materials, and other documents. While the GIPS standards do not require a firm to adopt policies to address errors that occur in materials outside of GIPS Reports, we asked firms whether they have an error correction policy for errors that occur outside of GIPS Reports. The results were split. Approximately 53% of respondents noted

Exhibit 11. Error Correction Policy for Errors That Occur Outside of GIPS Reports



they have an error correction policy for errors in materials outside of GIPS Reports. Of those firms that have an error correction policy for the treatment of errors outside of GIPS Reports, about half used their GIPS Standards Error Correction Policy in addressing those errors while the other half followed a different policy.

Conclusion

Firms often look to their peers to understand common practices in the industry. The results of this survey should, therefore, help to inform firms when they create error correction policies and set materiality thresholds. While the CFA Institute Sample Error Correction Policy for Firms is a useful tool, having both the sample policy and industry statistics will help firms better establish and assess their error correction policies.

About CFA Institute

CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion of ethical behavior in investment markets and a respected source of knowledge in the global financial community. Our aim is to create an environment where investors' interests come first, markets function at their best, and economies grow. There are more than 190,000 CFA charterholders worldwide in 160 markets. In the mainland of China, CFA Institute accepts CFA® charterholders only. CFA Institute has nine offices worldwide, and there are 160 local societies. For more information, visit www.cfainstitute.org or follow us on LinkedIn and Twitter at @CFAInstitute.

PL Qualified Activity CFA Institute

This publication qualifies for 0.25 PL credits under the guidelines of the CFA Institute Professional Learning Program.