



CFA Institute[®]

Global Investment Performance Standards

SAMPLE ERROR CORRECTION POLICY FOR FIRMS



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Introduction

Firms that claim compliance with the Global Investment Performance Standards (GIPS) are required to establish policies and procedures used in establishing and maintaining compliance with the requirements of the GIPS standards. Provisions 1.A.20 and 1.A.21 require firms to correct material errors in GIPS Reports and provide corrected GIPS Reports to clients and certain other parties that received the GIPS Report that had the material error. This sample error correction policy can be used to assist with creating policies and procedures for handling errors in GIPS Reports. This sample is one example of an error correction policy. Firms are not required to establish an error correction policy that is consistent with this sample. For example, this policy determines materiality by asset class, but this is not required. Another example is the use of both absolute and relative error thresholds to determine the level of error for certain items, as included in the table in item 4. A firm may create an error correction policy that includes both absolute and relative thresholds, only absolute thresholds, or only relative thresholds.

In addition, there may be regulatory requirements that must be considered. Regulations may also require firms to treat errors in a GIPS Composite Report differently from errors in a GIPS Pooled Fund Report. For example, a GIPS Composite Report typically will have a multi-level error correction policy while a GIPS Pooled Fund Report may have only two levels (material and not material).

Sample Error Correction Policy

To address errors that occur in GIPS Reports, ABC Firm has adopted the following policies and procedures.

1. Definition of error

An error is defined as any component of a GIPS Composite Report or GIPS Pooled Fund Report (together, GIPS Reports) that is missing or inaccurate. Errors can be quantitative or qualitative. All errors in GIPS Reports are subject to this Error Correction Policy.

2. Definition of material error

A material error is defined as any error in a GIPS Report that must be corrected and disclosed in a corrected GIPS Report.

3. Definition of materiality

An error (or item) is material if the magnitude of the omission or misstatement of performance information, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed by the omission or misstatement. When considering materiality, and more than one error has occurred, errors will be considered in the aggregate for each reporting period. Errors that may be considered immaterial individually may be material when considered in the aggregate.

4. Determining level of error

The table below establishes thresholds for determining the level of quantitative errors.

A Level 1 error is any error that is below the threshold for a Level 2 error.

Level 1, 2, and 3 errors are considered non-material errors. Level 4 errors are considered material errors.

Error	Asset Class	Level 4 Error		Level 3 Error		Level 2 Error	
		Absolute change	Relative change	Absolute change	Relative change	Absolute change	Relative change
Annual composite or pooled fund return	Equity	≥ 20 bps and	≥ 5%	≥ 15 bps and < 20 bps and	≥ 5%	≥ 10 bps and < 15 bps and	≥ 5%
	Fixed Income	≥ 10 bps and	≥ 5%	≥ 7 bps and < 10 bps and	≥ 5%	≥ 3 bps and < 7 bps and	≥ 5%
Annual benchmark return	Equity	≥ 20 bps	n/a	≥ 15 bps and < 20 bps	n/a	≥ 10 bps and < 15 bps	n/a
	Fixed Income	≥ 10 bps	n/a	≥ 7 bps and < 10 bps	n/a	≥ 3 bps and < 7 bps	n/a
Total Firm Assets	All	n/a	≥ 10%	n/a	≥ 7% and < 10%	n/a	≥ 3% and < 7%
Composite/Pooled Fund Assets	All	n/a	≥ 10%	n/a	≥ 7% and < 10%	n/a	≥ 3% and < 7%
Number of portfolios	All	≥ 5 and	≥ 10%	n/a	≥ 7% and < 10%	n/a	≥ 3% and < 7%
3-year external standard deviation	All	n/a	≥ 10%	n/a	≥ 7% and < 10%	n/a	≥ 3% and < 7%
Internal dispersion	All	n/a	≥ 10%	n/a	≥ 7% and < 10%	n/a	≥ 3% and < 7%

Any error in composite or pooled fund returns that causes the corrected return to change from outperforming the benchmark to underperforming the benchmark is considered a Level 4 error.

5. Quantitative errors not covered by the table above.

Every possible type of quantitative error is not covered by the table above. Quantitative errors not covered by the table above, such as an error in the percentage of non-fee-paying portfolios, will be reviewed by the GIPS Compliance Oversight Committee, which will decide how the error should be handled and which level of corrective action will be taken.

6. Qualitative errors

Qualitative errors, which can be missing, incomplete, or incorrect disclosures, will be corrected immediately. Qualitative errors will be reviewed by the GIPS Compliance Oversight Committee, which will decide how the error should be handled and which level of corrective action will be taken. Any error in disclosures that is deemed to have potentially impacted a prospective client's decision to invest will be treated as a Level 4 error.

7. Time periods

It is the Firm's policy to not differentiate errors based on the period in which they occur. All errors are treated the same, regardless of the period in which they occurred.

8. Corrective actions by level

The Firm has developed the following categories for actions to be taken once an error has been identified and the error correction level has been determined:

Level 1

- Take no action.

Level 2

- Correct the data error in the system, if appropriate.
- Correct the GIPS Report.
- Do not disclose the change.

Level 3

- Correct the data error in the system, if appropriate.
- Correct the GIPS Report.
- Disclose the change.
- Do not distribute the corrected GIPS Report.

Level 4

- Correct the data error in the system, if appropriate.
- Correct the GIPS Report.
- Disclose the change.
- For GIPS Composite Reports:
 - Provide the corrected GIPS Composite Report to the current verifier.
 - Provide the corrected GIPS Composite Report to current clients, current investors, and any former verifiers that received the GIPS Composite Report that had the material error.
 - Make every reasonable effort to provide the corrected GIPS Composite Report to all current prospective clients and prospective investors that received the GIPS Composite Report that had the material error.
- For GIPS Pooled Fund Reports:
 - Provide the corrected GIPS Pooled Fund Report to the current verifier.
 - Provide the corrected GIPS Pooled Fund Report to current investors and any former verifiers that received the GIPS Pooled Fund Report that had the material error.
 - Make every reasonable effort to provide the corrected GIPS Pooled Fund Report to all current prospective investors that received the GIPS Pooled Fund Report that had the material error.

Any required disclosure will be included in the GIPS Report for a minimum of one year.

9. GIPS Compliance Oversight Committee

The GIPS Compliance Oversight Committee will include one member from each of the following departments: Compliance, Legal, Sales, Marketing, Client Service, Performance, Operations, and Risk.

The GIPS Compliance Oversight Committee is responsible for reviewing all errors. The GIPS Compliance Oversight Committee will discuss the nature of the error and if any additional procedures need to be implemented to minimize the likelihood that the same type of error reoccurs.

10. Error incident report

The responsible Performance Department team member will complete an Error Incident Report and submit this Report to the GIPS Standards Oversight Committee, along with the incorrect GIPS Report and the corrected GIPS Report, if applicable. The Error Incident Report will include the following information, as applicable:

- The composite or pooled fund affected by the error
- For composites, the affected portfolios
- The affected periods
- How the error was identified

- Materiality calculation
- Action level taken
- Steps taken or to be taken to prevent the same type of error from happening again
- Changes needed to the error correction policy.

11. Distribution of corrected GIPS Reports

When a material error occurs, the distribution of the corrected GIPS Report that includes disclosure of the change resulting from the correction of the material error will be overseen by a member of the Compliance Department. The Compliance team member will coordinate efforts with the Performance, Sales, and Client Service Departments and is responsible for ensuring that the corrected GIPS Report is provided to all appropriate parties, including tracking the parties that received the corrected GIPS Report in the CRM system. Corrected GIPS Reports sent by email will cc the Compliance team mailbox.

If the firm is not certain if a specific party received the GIPS Report that included the material error, the firm will assume that the specific party received the GIPS Report that included the material error and will provide that corrected GIPS Report that includes disclosure of the change resulting from the material error.

It is the Firm's policy not to provide a corrected GIPS Report with disclosure of the change resulting from the material error to former clients, former investors, former prospective clients, and former prospective investors.

12. Corrected GIPS Reports with disclosure of the change resulting from a material error

It is the Firm's policy to not provide GIPS Reports with disclosure of the change resulting from a material error to new prospective clients and prospective investors. When a material error occurs that requires disclosure of the change in the GIPS Report, the Performance Department will create a second version of the GIPS Report that does not include disclosure of the change resulting from the material error, and this is the only version of the GIPS Report that will be available to the Sales Department.

13. Changes to the error correction policy

Changes to the Error Correction Policy must be approved by the GIPS Compliance Oversight Committee.