CFA Institute

Global Investment
Performance Standards

EXPOSURE DRAFT: GLOBAL INVESTMENT PERFORMANCE STANDARDS (GIPS®) GUIDANCE STATEMENT ON TRADE ERRORS

Effective Date: TBD

Public Comment Period 16 September 2026 – 15 December 2026

Invitation to Comment

CFA Institute established the GIPS® Standards Technical Committee (TC) as the technical oversight body for the GIPS Standards. The GIPS Standards TC seeks comment on the following proposal regarding the GIPS Standards Guidance Statement on Trade Errors.

Public commentary on this Exposure Draft will help shape the final version of this Guidance Statement. Written comments should be provided by email and submitted to gipsstandards@cfainstitute.org.

Questions for the Guidance Statement's intended users can be found throughout the document, and a complete list of questions appears in Appendix A. You may address as few or as many of the Exposure Draft questions as you wish. We also welcome any further comments on this Exposure Draft that are not explicitly captured in the list of questions provided in Appendix A. In addition to responding to the specific questions, please provide feedback on the entire document, including items you support. All comment letters will be considered carefully and are greatly appreciated.

This Exposure Draft is available on the GIPS standards website (www.gipsstandards.org).

The deadline for providing feedback is no later than 15 December 2026. Unless otherwise requested, all comments will be posted on the GIPS standards website.

Guidelines for Commenting

Comments are most useful when they

- directly address a specific recommendation or question,
- provide a rationale and support for the opinions expressed, and
- suggest alternative solutions in the event of disagreement.

Positive comments are equally as helpful as comments that provide constructive suggestions for improvement.

Requirements for Commenting

For comments to be considered, please adhere to the following requirements:

- Provide all comments in English.
- Submit comments in a Microsoft Word document.

Contents

1. Introduction

Many investment management firms occasionally make unintentional errors while managing portfolios. For the purposes of this Guidance Statement, these errors are commonly referred to as “trade errors.”

Although the GIPS standards require firms to establish error correction policies to address material errors in GIPS Reports, guidance is needed to address how a firm should treat trade errors in portfolios and composites from a GIPS standards perspective. It is possible that a firm’s trade error policy may trigger its error correction policy.

This Guidance Statement is intended to provide GIPS standards guidance for addressing trade errors. This includes how trade errors are treated for performance purposes and will serve as a resource for firms when developing their policies for trade errors in portfolio and composite performance. It is not intended to cover acts of malfeasance.

If a pooled fund is included in a composite, it should be treated the same as a segregated account for the purposes of composite inclusion.

Although many aspects of this Guidance Statement will be relevant to a fund manager’s obligations with respect to pooled funds, pooled funds themselves may have additional considerations that are not contemplated in this document, such as the impact on NAVs used for investor subscriptions and redemptions. A firm that claims compliance with the GIPS standards may follow error policies required by laws or regulations for pooled funds that differ from error policies for segregated accounts.

There is no “one size fits all” trade error policy. Trade errors are inherently difficult to define because of their varied nature and causes. As such, firms typically evaluate and address each occurrence individually, considering the specific facts and circumstances involved. Each firm’s trade error policy would typically be tailored to its unique operational framework, investment strategies, and risk management approach.

This Guidance Statement is intended to help firms think about what elements may be included in the GIPS standards trade error policy. Firms should create a GIPS standards trade error policy and tailor their policies and procedures to reflect their specific needs and governance structures. For example, although this Guidance Statement assumes that the firm may have a Trade Error Oversight Committee, it is recognized that not all firms will have such a committee in place. The oversight authority with respect to trade errors may be vested with a different governance committee (e.g., a Risk Committee) or another group or individual within the firm.

2. False or Misleading Performance Information

As firms consider how they will treat trade errors from valuation, performance calculation, composite inclusion, and reporting perspectives, they will be met with different scenarios and decisions regarding the treatment of trade errors. It is often challenging to create trade error policies, and it is possible that trade error scenarios will arise that the firm had not anticipated. When creating trade error policies and procedures and when dealing with situations that arise unexpectedly, firms must not present any performance or performance-related information that is false or misleading. This requirement applies to all performance or performance-related information on a firm-wide basis and is not limited to those materials that reference the GIPS standards.

This Guidance Statement addresses trade errors that impact GIPS Reports. Firms may wish to consider whether they will apply their composite-specific trade error policy to performance and performance-related information in other marketing materials.

3. Laws and Regulations

The considerations and sample policies herein are not intended to meet the requirements of any specific regulator and should not be considered legal advice. Firms with different operations, clients, and regulators may have different obligations related to trade errors and similar events. As a result, firms will need to decide for themselves, based on facts and circumstances, which events are subject to their trade error policies and the steps needed to resolve them. Firms also need to ensure they are complying with applicable legal and regulatory requirements as well as adhering to client agreements. Firms may also, subject to those requirements, consider commercial matters such as notification obligations under their errors and omissions policies.

From a GIPS standards perspective, firms must comply with all applicable laws and regulations regarding the calculation and presentation of performance. If the GIPS Report conforms with laws and/or regulations that conflict with the requirements of the GIPS standards, the firm must disclose this fact and disclose the manner in which the laws and/or regulations conflict with the GIPS standards.

4. Trade Error and Error Correction Policies and Procedures

The GIPS standards have historically required firms to have a GIPS Standards error correction policy. This Guidance Statement introduces a new type of error policy: a GIPS standards trade error policy. Within this document, the GIPS standards trade error policy will be referred to as a "GIPS Standards Trade Error" policy, and an error correction policy will be referred to as a "GIPS Report Error Correction" policy.

GIPS Standards Trade Error Policy

It is important for firms to create policies and procedures to identify, assess, and remediate trade errors. Similar to creating a significant cash flow policy, firms may choose to create GIPS standards trade error policies and procedures that result in removing the portfolio(s) with the material trade error from the relevant composite(s). If a firm chooses to create GIPS standards trade error policies and procedures, the definition of trade errors must be applied ex ante on a composite-specific basis, and the firm must follow the policy consistently. Changes to the definition of a trade error or changes to the trade error policy must not be applied retroactively (e.g., redefining trade errors after the fact to exclude certain poor-performing portfolios from composites). It is not required for a firm to create a GIPS Standards Trade Error policy.

If a firm chooses to create a GIPS Standards Trade Error policy, it must create a materiality threshold for determining how a trade error impacts portfolio performance and composite performance. A firm may choose to remove a portfolio with a trade error from a composite under certain circumstances. Please see Section 7 and the related matrix for more information on composite inclusion. A firm may consider including the following steps in its GIPS Standards Trade Error Policy:

a. No action. The trade error is not material.

b. Restate portfolio and composite performance going forward. The trade error is not material. Keep the portfolio in the composite. Do not disclose the trade error in a GIPS Report as a significant event.

c. Restate portfolio and composite performance going forward. The trade error is material. Keep the portfolio in the composite and disclose the trade error in a GIPS Report as a significant event.

d. Restate portfolio performance and composite performance historically. The trade error is material. Keep the portfolio in the composite and follow the GIPS Report Error Correction policy. Disclose the material error in the GIPS Report.

e. Remove the portfolio from the composite for the period(s) impacted by the trade error and follow the GIPS Report Error Correction policy. Disclose the material error in the GIPS Report.

Not all trade errors materially impact portfolio performance, composite performance, or a GIPS Report, and not all trigger a firm's error correction policy. Some trade errors, however, will trigger a firm's error correction policy. Thus, firms need to establish when the GIPS Standards Trade Error policy triggers error correction policies and procedures.

GIPS Report Error Correction Policy

Firms are required to define materiality in their GIPS Report Error Correction policies, correct material errors in GIPS Reports, and provide the corrected GIPS Report to the current verifier and to current clients and any former verifiers that received the GIPS Report that had the material error. Firms must also make every reasonable effort to provide the corrected GIPS Report to all current prospective clients and prospective investors that received the GIPS Report that had the material error. Firms are not required to provide the corrected GIPS Report to former clients, former investors, former prospective clients, or former prospective investors.

An error, which can be qualitative or quantitative, is defined as any component of a GIPS Composite Report that is missing or inaccurate. Errors in GIPS Composite Reports may include, but are not limited to, incorrect, incomplete, or missing

- composite returns or assets,
- total firm assets,
- benchmark returns,
- number of portfolios in a composite,
- three-year annualized ex post standard deviation, and
- disclosures.

Although a GIPS Standards Trade Error policy and a GIPS Report Error Correction policy apply to GIPS Reports, firms may consider applying their GIPS Standards Trade Error policy and GIPS Report Error Correction policy when there are trade errors in other marketing materials and client reporting.

Questions for public comment:

1. Do you think the difference between the GIPS Standards Trade Error policy and the GIPS Report Error Correction policy is clear?

2. Do you agree with the guidance provided above in regard to the GIPS Standards Trade Error policy?

5. Scope of the Trade Error Policy

Firms often operate across multiple legal entities, regions, and product lines, so defining the scope of a trade error policy is essential. In a GIPS compliant firm, the scope of the GIPS Standards Trade Error policy is tied to the definition of the firm. The firm must clearly identify which portfolios and composites apply within the GIPS Standards Trade Error policy. Although not every portfolio or composite will have its own trade error policy, establishing this scope ensures the policy aligns with the firm's organizational structure and operational responsibilities.

In many cases, a firm will have a general trade error policy that applies more broadly than its GIPS Standards Trade Error policy. GIPS standards policies do not have to reside in one place within the firm. For example, the GIPS Standards Trade Error policy may reside with the compliance department and be incorporated into broader trade error policies that are not related only to GIPS compliance.

6. Definition of a Trade Error

Although an integral part of establishing a trade error policy is defining a trade error, there is currently no universally accepted definition of a trade error. Because of the varied nature of trade errors, most cases are evaluated based on their specific facts and circumstances and often involve review by legal, compliance, and/or risk teams. As a result, many firms choose not to adopt a prescriptive trade error definition.

Trade errors may include executing trades incorrectly or failing to execute trades as intended in accordance with the investment strategy or agreement with the client and can result in a financial impact on the portfolio. Trade errors typically stem from portfolio management, trading, or operational mistakes; they do not include instances where a firm makes a deliberate strategic decision to deviate from the investment mandate, objective, or strategy. Trade errors can be caused by investment personnel, such as traders or portfolio managers, or by back or middle office personnel, such as those in the Compliance department, Operations department, or Technology department. Examples of trade errors caused by back or middle office personnel include: a restriction that is incorrectly coded by the Compliance department, a cash flow that is missed by the Operations department, or an incorrect allocation of securities from a quantitative program built by the Technology department. Some firms will use the term "investment errors" or simply "errors," in recognition of the fact that not every error that impacts a client portfolio is technically related to the trading process. Some firms include investment errors in their definition of trade errors.

Firms typically take one of three common approaches to defining trade errors:

- Define the term broadly and supplement it with illustrative examples.
- Assume the term is sufficiently understood within the industry and choose not to define it at all.
- Start with a broad definition of a trade error and then update the policy as potential trade errors are identified and decisions are made to determine what will be considered a trade error on a prospective basis.

This flexibility allows firms to tailor their approach to their operational structure and risk management philosophy.

Firms may also consider the following circumstances when creating their definition of a trade error:

- A series of erroneous actions or inactions. For example, a firm incorrectly sells a security for one portfolio that triggers a rebalance of that portfolio that should not have occurred. In that instance, a firm might consider the series of incorrect transactions as a single trade error and net the gains and losses.
- Incorrect management fees or performance-based fees. A firm may consider whether its trade error policies will include an assessment of fee calculations. Some firms may distinguish between errors in fee calculations that are not tied to trade errors versus fee calculations that are impacted by trade errors. For example, the fee billing team of Firm A miscalculates a performance-based fee because of a mistake in a spreadsheet. The firm does not consider the error to be a trade error but does capture the error under a different policy. In another example, Firm B incorrectly trades a portfolio and determines the incorrect trades are a trade error. As a result of

the trade error, the portfolio had an incorrect return, which was used in the performance-based fee calculation. Because the incorrect fee is attributable to the trade error, that error in the client's fees may be in scope for Firm B's trade error policy.

- An error made by an outsourced party. Some firms outsource part of their investment or operations functions, such as corporate action processing, cash flow processing, or hedging. For example, a firm may outsource the monitoring and processing of corporate actions to a custodian bank. An error could occur if the custodian bank failed to notify the firm about a voluntary corporate action that the firm would have elected to participate in. An error could also be caused by a broker, such as recording an incorrect price in a transaction confirmation. A firm could also have a policy on who will directly reimburse the client—the firm or the outsourced party. If a firm's policy is to have the outsourced party reimburse the client directly, the firm could also have a policy to address what the firm would do in cases where the outsourced provider is not meeting its obligation to reimburse the client because the firm is ultimately responsible for doing so. The standard of care may be documented in a client's investment management agreement.

- Adhering to the client's investment management agreement. The treatment of trade errors and any resulting remediation may be written into a client's Investment Management Agreement or addressed in other disclosures provided to clients. Any such agreements and disclosures should be taken into consideration.

The following might not be considered trade errors, but they may be treated as a trade error and included in the trade error policy:

- Erroneous transactions that did not have a monetary impact but could have. For example, some firms may consider errors that are caught before execution or reversed before settlement as a "near miss" because no compensation is due to a client. Firms could establish policies that define how such transactions are treated. Additionally, tracking near misses can help identify patterns and inform the implementation of controls designed to prevent similar errors in the future.

- Errors that only impact reporting. In this situation, there is no impact to the underlying portfolio. For example, including an incorrect holding in a client report or assigning the portfolio to the wrong composite.

- Operational errors that impact portfolios (e.g., a missed or misprocessed corporate action). Some firms may define trade errors to include all transaction-related mistakes, regardless of whether they involve actual trades.

Sample Trade Error Policy Language

Firm XYZ defines a trade error in a client portfolio as follows: A trade error occurs when Firm XYZ does not transact in securities or cash as intended per the investment strategy or client investment policy statement, and that omission results in a monetary impact to the client portfolio. Trade errors can occur for a variety of reasons, including but not limited to when Firm XYZ does the following:

- Purchases or sells the wrong security
- Purchases or sells the wrong amount of a security
- Does not purchase or sell a security as intended
- Does not invest the client's portfolio consistent with the investment guidelines
- Does not invest a client's cash flow as agreed upon
- Duplicates trades
- Allocates securities incorrectly to client portfolios
- Misses a voluntary corporate action

A series of actions or inactions arising from the same underlying event may be deemed to be a single trade error when the actions or inactions are related to, or caused by, one another. In such cases, gains and losses will be netted.

Any change in investment management fees as a result of the correction of the trade error will be considered as part of the reimbursement for the trade error.

Errors that are not caused by Firm XYZ or its designees will not be considered a trade error for purposes of this policy. When Firm XYZ has outsourced an investment or operations function and the third party makes an error, Firm XYZ will determine who will reimburse the client for any losses. If the firm determines that the third party has failed to reimburse the client in a timely or appropriate manner, Firm XYZ will reimburse the client and will seek reimbursement from the third party.

Errors that do not result in a monetary impact to client portfolios are not considered trade errors and are not covered by this policy. These errors will be documented and reviewed to ensure proper controls are put in place to avoid the recurrence of similar errors.

Questions for public comment:

3. Do you agree with the examples that were provided to determine the definition of "trade errors"?

4. Are the trade error considerations and sample policy language helpful? Should any trade error considerations or sample policy language be added, changed, or removed?

7. Considerations for Addressing Trade Errors

Firms can develop a checklist to ensure all necessary trade error identification and corrective steps are taken, including who is responsible for each step. Firms should carefully consider the sequence of remedial steps and the internal and external parties that must receive notice of a trade error when crafting trade error policies. The following aspects of a firm's trade error policy relate to compliance with the GIPS standards and are not an exhaustive list of considerations for firms considering trade errors:

a. Population of portfolios and transactions related to the trade error

When a trade error is found in a portfolio, a firm should determine whether other portfolios were affected by the trade error. Firms should consider whether additional related events or transactions exist that are part of the same trade error and whether gains and losses from the multiple events or transactions will be netted. For example, assume an incorrect rebalancing order for a portfolio was communicated by a portfolio manager to a trader, and the trader executed the order through multiple distinct transactions. A firm may determine that all of the transactions are considered part of the same trade error and net the gains and losses to determine if the client is due a reimbursement.

Sample Policy

After a trade error has been identified, the Operations department will identify the client portfolios impacted by the trade error. The Operations department will also identify if there are any other events or transactions that need to be included in the trade error remediation. It is Firm XYZ's policy to net gains and losses in a portfolio from related events or transactions when the gains and losses are deemed to be attributable to a single trade error.

b. Monetary impact calculation to establish client portfolio losses

Typically, the main objective of a monetary impact calculation is to determine how to make the client whole. If the client experienced a net loss as the result of a trade error, a firm would generally aim to restore the client's financial position as if the trade error had not occurred.

Because each trade error will be different, it is not possible to create a policy that addresses every scenario. The firm may choose to include sample calculations in its policy or refer to a log of past monetary impact calculations. The firm may use the composite return, the representative portfolio return, or the attribution system to determine the monetary impact of the trade error. A policy may also address whether the firm:

- reimburses clients for any opportunity costs,
- nets gains and losses from transactions related to the trade error,
- adds interest to reimbursements for the time period between the date of the trade error and the date that the reimbursement is credited to the client,
- reimburses for transaction costs,

- considers dividends and corporate actions,
- considers the related cash flows when generating the correct return,
- has a minimum threshold for losses for when the client is reimbursed, and
- recreates the gain or loss in the portfolio as if the trade error had not occurred.

Firms may not have control over how the reimbursement is made. Some clients may request to have the reimbursement put into their portfolio, and other clients may request that the reimbursement be applied as a fee discount or paid directly to them. These different client preferences can lead to inconsistencies in performance. A firm could establish policies that seek to apply the same treatment for reimbursements in all client portfolios but recognize that a client may request to receive a reimbursement that does not follow the firm's standard policy. Regardless, the firm retains the responsibility for its GIPS compliance and is required to present a composite track record that is not false or misleading.

Sample Policy

Firm XYZ will compensate clients for any monetary losses resulting from trade errors, including opportunity costs. Reimbursements are calculated with the objective of making the client whole. Firm XYZ will determine the financial impact by establishing what the portfolio's valuation would have been had the trade error not occurred. Cash flows will be considered in the calculation. The firm will also add a credit for interest based on the average prevailing interest rate for the time between the date the trade error was incurred and the date the reimbursement is sent to the client. Firm XYZ does not have a minimum threshold for losses that are reimbursable.

Netting gains and losses among trade error-related transactions within a portfolio is permitted as long as the transactions relate to the same trade error. The Trade Error Oversight Committee will determine whether the transactions are related to the same trade error.

Depending on the type of trade error, the monetary impact could be calculated in different ways. The portfolio manager may advise on how the portfolio would have been invested had the trade error not occurred.

Cash flows that occurred between the start date of the trade error and the correction date of the trade error will be considered and reflected in the monetary impact calculation.

c. Determine if there is any impact on investment management fee calculations

Firms may charge a client an incorrect investment management fee as a result of a trade error. These types of errors may or may not be captured in a firm's trade error policies. Incorrect investment management fees could occur because of a variety of situations, including the following:

- The underlying data (e.g., market values, flows, performance) on which the investment management fee is calculated are incorrect.

- The client that experienced the trade error has a performance-based fee arrangement. For example, assume that in May, the firm discovers a trade error that occurred in February that resulted in a monetary loss for the client. Unrelated to this trade error, the client withdrew 50% of their assets in April. When the reimbursement is processed as a gain in May, it creates a large performance impact on the year-to-date performance used for the performance-based fee because the reimbursement gain is divided by a smaller market value. As a result, the client is charged an overstated performance-based fee.

Sample Policy

If Firm XYZ charges a fee that would have been lower had a trade error not occurred within a client's segregated account, Firm XYZ will make the client whole by reimbursing the fees due to the client. As part of the trade error remediation process, Firm XYZ will review the investment management fee and performance-based fee calculations of any client portfolio that had a trade error to determine if any adjustments need to be made. In general, if the client is being made whole or the client is keeping a gain, an adjustment will not need to be made.

Questions for public comment:

5. Are there any considerations or sample policies for fees that should be added, changed, or removed?

d. Trade error remediation

The financial impact of the trade error remediation may depend on a variety of factors, including:

- whether the client experienced a gain or a loss,
- if the trade error resulted in a gain, whether the firm keeps the gain or lets the client keep the gain, and
- if the firm determines that it owes the client a reimbursement, how the reimbursement will be paid.

If the trade error leads to a gain and the firm lets the client(s) keep the gain, then it will typically be up to the client whether they want the gains to remain in the portfolio. If the firm keeps the gain, then the firm may transfer the gain out of the portfolio. Typically, the firm would not remove the gain from a trade error from a portfolio, but this determination is made on a facts and circumstances basis. For example, in some cases, a firm may have a designated portfolio for accumulating such gains and may donate these funds to a charity.

If a trade error leads to a loss and the firm is making a reimbursement, the client will typically determine whether they want those funds to be:

- deposited into their portfolio,
- processed as a fee discount, or
- sent directly to the client outside of their portfolio.

A firm may have a default policy for the source of the funds used to make the reimbursement.

Sample Policy

If a trade error results in a loss to the client, the firm will typically reimburse the client from the firm's operational expense account and put the funds into the client's portfolio that had the trade error. If the client wishes instead to receive funds via a fee discount or outside of their portfolio, the firm will honor the client's request.

Questions for public comment:

6. When a trade error results in a gain, in what circumstances would the firm keep the gain?

e. Correcting transactions

For many trade errors, a correcting transaction is needed to correct the portfolio as though the trade error had not occurred. For example, if a portfolio were invested in Security A when it should have been invested in Security B, the firm would sell Security A and buy Security B.

Because each trade error is different, it is not possible to address all the ways in which a trade error could be corrected. However, firms may consider the following when drafting a policy and making a correcting transaction:

- To decrease the risk of exposing a client to additional losses, a firm may try to execute any correcting transactions as soon as possible. Because of the complexity of some trade errors, it may not always be possible to make the correcting transactions within a few days. A firm may have a policy that states the typical timeframe (e.g., a range of time such as 30 days) during which it may make any correcting transactions and also an approval process for situations that require an exception to that policy.

- When making a correcting transaction, a firm generally will not use the rightful assets of another client portfolio so as not to disadvantage one client to correct a trade error in another client's portfolio. However, a firm may resolve a trade error by moving securities and cash between portfolios if the securities or cash were erroneously put into the wrong portfolio and reversing those transactions would reverse the source of the trade error.

When determining the correcting transaction, it is important to establish how the trade error was remediated. If a check was issued outside of the portfolio or a fee was reduced to offset an incorrect fee, the firm may need to create a transaction to reflect the remediation in the portfolio assets and performance. A firm also needs to determine if it will make the correction in the current period or in the historical period when the trade error happened.

Sample Policy

Correcting transaction(s) will be made promptly, within three business days when possible, to avoid any future potential losses to the client, unless it would not be in the client's best interest to do so. If more than three business days are needed to correct a trade error, the Trade Error Oversight Committee must approve the delay.

Trade errors will generally not be corrected using assets from a different client portfolio unless doing so reverses the source of the trade error.

f. Client portfolio performance

A gain or loss attributable to a trade error will typically be reflected in the client portfolio performance record. For example, if a firm bought an incorrect security for a client and discovered the trade error a month later and sold the security, the gain or loss on this security will be included in the portfolio's performance. If a firm mistakenly does not invest a cash contribution that is made to the client portfolio, the missed investment opportunity is reflected in the portfolio's performance record.

The time period in which the trade error occurred and the time period in which the correction and any reimbursement are made may be different. For example, a client portfolio may have held the wrong security from 12 April through 25 May and is reimbursed for the corresponding loss in June. Because the trade error and the reimbursement occurred in different periods, there may be a performance impact even if a client is monetarily made whole.

When a trade error results in a gain and the firm lets the client keep the gain, the gain will be reflected in the client's performance track record. The positive impact of the trade error on the client's track record reflects the actual amount earned by the client. The firm may consider whether the client track record should reflect the gain or if it is misleading to do so. The firm may wish to eliminate the performance impact of the gain by treating it as if it were an external cash flow.

When a trade error results in a loss and a reimbursement is owed to a client, a firm may consider the following factors:

- Firms may not have control over how the reimbursement is made. Some clients may request to have the reimbursement put into their portfolio, and other clients may request that the reimbursement be applied as a fee discount or paid directly to the client. These different client preferences can lead to inconsistencies in performance. A firm could establish policies that seek to apply the same treatment for reimbursements in all client portfolios but acknowledge that a client may request to receive a reimbursement that does not follow the firm's standard policy.

- If a client agrees to accept a reimbursement directly into their portfolio, a firm will need to determine how to treat that reimbursement for performance measurement purposes. A firm may decide to treat the reimbursement as a gain because doing so reflects the actual amount earned by the client. Alternatively, a firm may treat the reimbursement as a contribution because that is the most conservative approach.

- If there are cash flows that occurred since the trade error happened, the firm would consider the change in denominator when calculating the reimbursement and the revised performance.

- Trade error reimbursement may impact a client's fees when a client chooses to take the reimbursement as a fee discount. If such a portfolio is included in a composite and the composite net returns are calculated using the actual net returns of the portfolios in the composite, then the firm may determine whether an adjustment is needed to properly calculate composite net returns.

- Firms may also determine where and when the treatment of trade errors is disclosed in client reports.

- Firms must consider the impact of trade errors on GIPS Reports.

The firm may wish to include a disclosure about the trade error and how the correction of the trade error is or is not reflected in the client's performance report.

Sample Policy

When a trade error is discovered, any correcting transaction(s) will generally be made in the current period.

If a trade error results in a gain, the client's performance track record will reflect that gain.

If a trade error results in a loss and a reimbursement is made to the client's portfolio, the reimbursement will be processed as an adjustment to the current portfolio's value rather than a cash flow, and the performance will reflect the reimbursement in the period in which the reimbursement is made. If the reimbursement is processed as a fee discount or is otherwise made outside of the portfolio, a transaction will be input to reflect the reimbursement amount in the portfolio's returns.

The client report will include a disclosure about the trade error and how the correction of the trade error is or is not reflected in the client's portfolio performance.

Questions for public comment:

7. Do you agree with the considerations regarding how a firm may reflect a reimbursement in the client's portfolio?

8. Are there any considerations or sample policies for reflecting a reimbursement in the client's portfolio that should be added, changed, or removed?

9. Do you believe that reflecting a gain from a trade error (either as a reimbursement from a loss or as the trade error itself) in performance is misleading or should be allowed?

10. How should a loss from a trade error be reflected in performance?

g. Composite inclusion

The GIPS standards require firms to include in a composite all actual, fee-paying, discretionary portfolios that meet the composite definition. Composites must be defined according to investment mandate, objective, or strategy. However, there are instances when a trade error in a client's portfolio makes the portfolio's performance not representative of the investment strategy and, therefore, including it in the composite could be misleading.

This Guidance Statement introduces a new consideration for when a fee-paying, discretionary portfolio may be removed from a composite. Historically, a portfolio must not be removed from a composite except in such specific instances as the following (this is not an exhaustive list):

- There is a client-directed change to a portfolio's investment mandate, objective, or strategy.
- The composite is redefined in such a way that the portfolio is no longer an appropriate fit.
- A portfolio has a significant cash flow, and the composite it is in has a composite-specific significant-cash-flow policy.
- A portfolio has fallen below the minimum asset level, and the composite it is in has a minimum asset level established.

However, in the case where a portfolio trade error causes a material impact to composite performance, removing the portfolio from the composite may be necessary to ensure the composite performance reflects the investment strategy. Presenting a composite to prospective clients that has materially better performance or materially worse performance caused by a trade error could be considered misleading.

Similar considerations apply here as when a GIPS compliant firm establishes a significant cash flow policy and removes portfolios with significant cash flows temporarily from the impacted composites. In the case of a significant cash flow policy, the portfolio is removed from the composite because the client-directed cash flow is at the level at which the firm determines that it may temporarily prevent the firm from implementing the composite strategy.

This Guidance Statement explicitly allows a firm to create a policy to remove a portfolio from its composite when that portfolio has a trade error that materially impacts the composite performance so that including the portfolio in the composite would cause the composite to no longer be representative of the strategy. If a firm chooses to create a trade error policy that includes removing a portfolio with a trade error from the composite, it must define the threshold where the impact of the trade error is considered material and the portfolio is removed from the composite. The materiality threshold must be established on an ex ante composite-specific basis. The firm must consistently follow the policy.

Firms may wish to create a materiality threshold that is absolute and/or relative to a benchmark. Once the materiality threshold required to remove a portfolio from a composite because of a trade error is established, the firm must remove from the composite all portfolios that experience a material trade error. Firms must establish policies for the timing of excluding portfolios that experience material trade errors from composites, as well as policies for the timing of re-including those portfolios in composites. These policies must be established on a composite-specific basis. A trade error definition or policy may be changed as long as it is done prospectively and is documented in the firm's policies and procedures. Changes to a trade error definition or policy must not be applied retroactively.

If a firm is initially coming into compliance with the GIPS standards and is building a compliant track record, the firm may establish a trade error materiality threshold for a composite and apply that policy as it constructs a composite's history. If the materiality threshold for a composite-specific trade error policy is being constructed historically for a newly created composite, the materiality threshold for the trade error must not be established with the intent of increasing composite performance.

The trade error definition and the materiality threshold to remove a portfolio from a composite may be influenced by the characteristics of the asset class(es) within the strategy, such as volatility. For instance, a trade error threshold that represents 10 basis points (bps) for a US Treasury fixed-income composite may be in excess of 25 bps for a more volatile composite strategy.

The threshold at which a portfolio is removed from the composite must be determined as either a specific monetary amount of gain/loss (e.g., EUR500,000), impact to portfolio return (e.g., 50 bps), or impact to composite return (e.g., 25 bps).

A firm may have a different policy for trade errors that result in portfolio gains versus losses. Materially overstating performance may be treated differently than materially understating performance from a regulatory perspective as well. The firm may instead choose to treat the trade errors that result in portfolio gains and portfolio losses the same way and remove the portfolio from the composite in any case.

The firm will need to determine if it will apply the same treatment when the monetary impact of the trade error causes the performance of the composite to be understated or overstated relative to the composite benchmark. Firms should be mindful that applying the same treatment whether performance is overstated or understated can eliminate the ambiguity associated with the treatment of the trade error.

If a reimbursement for a trade error is reflected as a gain in the portfolio's performance in a different period from the period when the trade error occurred, the firm can follow the same policy for removing the portfolio from the composite to ensure the composite performance reflects the investment strategy for both periods that are impacted.

If a firm has a single portfolio in a composite and that portfolio is temporarily removed from the composite because of the firm's composite-specific trade error policy, the composite's track record is broken and its continuous performance history ends. Once the portfolio is added back to the composite and the composite performance is restarted, the performance history must be presented for periods both before and after the break and cannot be linked across the break. If the break in performance occurred more than 10 years ago or before the firm claimed compliance with the GIPS standards, the performance prior to the break does not need to be presented. In all other cases, the firm must present the performance both prior to and after the performance break.

If a portfolio is temporarily excluded from a composite because of the composite's trade error policy, the portfolio's assets would not be included in composite assets for the period(s) for which the portfolio was excluded. However, the portfolio's assets would be included in total firm assets for all periods for which the portfolio is under management, whether or not it is excluded from the composite.

Sample Policy #1

Portfolios that experience a trade error will be analyzed to determine how the portfolio will be treated for composite assignment purposes.

When the impact of a portfolio trade error causes the performance of the composite to be overstated, the firm will apply the following materiality thresholds to determine if:

- the portfolio will be removed from the composite,
- a disclosure will be added to the GIPS Report to explain the trade error and the impact on the composite return, or
- no action will be taken with respect to removing the portfolio from the composite or disclosing the trade error in the GIPS Report.

The performance overstatement calculation will be assessed based on the composite's annual returns.

Performance Understatement

Composite	Materiality Threshold to Remove Portfolio	Disclosure	Immaterial
Equity	>75 bps	>25 bps	≤25 bps
Fixed Income	>25 bps	>10 bps	≤10 bps
Alternatives	>75 bps	>25 bps	≤25 bps

When the monetary impact of the trade error causes the performance of the composite to be understated, the firm will apply the following materiality thresholds to determine if:

- a disclosure will be added to the GIPS Report to explain the trade error and the impact on the composite return, or
- no action will be taken with respect to the GIPS Report.

The portfolio with the trade error will not be removed from the composite in the event of an understatement. The performance understatement calculation will be assessed based on the composite's annual returns.

Performance Understatement

Composite	Disclosure	Immaterial
Equity	>25 bps	≤25 bps
Fixed Income	>10 bps	≤10 bps
Alternatives	>25 bps	≤25 bps

Any adjustments to gross returns, investment management fees, and net returns will be considered. The firm will also follow its GIPS Report Error Correction policy for any historical revisions to the track record(s).

Sample Policy #2

If a portfolio experiences a material trade error that results in either an overstatement or understatement of results, the portfolio will temporarily be removed from all composites until it can be brought back in line with the investment strategy. Materiality thresholds will be created on a composite-specific basis. The rationale, along with supporting documentation for any composite assignment change resulting from a material trade error, will be documented. Any changes to gross returns, fees, and net returns will be considered. The firm will also follow its GIPS Report Error Correction policy for any historical revisions to the firm's track record(s). Any material trade errors that do not impact historical results will be disclosed as a significant event in GIPS Reports for one year or for as long as it is relevant to interpret the track record.

Questions for public comment:

11. Do you agree with allowing firms to create a policy to determine a materiality threshold for when portfolios with trade errors can be removed from composites?

12. Do you agree with allowing different policies for the treatment of an overstatement or understatement of performance resulting from a trade error?

13. Do you agree with the considerations and sample policies for trade errors in portfolios assigned to a composite?

14. Are there any considerations or sample policies for trade errors in portfolios assigned to a composite that should be added, changed, or removed?

h. GIPS Report disclosures

The GIPS standards are based on the principles of fair representation and full disclosure. Meeting these principles requires a good faith commitment on the part of the firm to adhere to the spirit of the GIPS standards. However, the GIPS standards cannot foresee and address every situation that might occur.

Significant Event

The firm must disclose all significant events that would help a prospective client interpret the GIPS Composite Report. This disclosure must be included for a minimum of one year and for as long as it is relevant to interpreting the track record. The primary goal of the significant event disclosure requirement is to provide relevant information to prospective clients so that they can understand the potential effect of the significant event on the composite's investment strategy and on the firm.

If the firm chooses to keep a portfolio with a trade error in a composite going forward, the firm must consider whether the trade error is a significant event that must be disclosed. One factor that determines whether the trade error rises to the level of a significant event may be if the trade error had a material impact on performance.

Trade Error Policy

If the firm chooses to create a trade error policy to remove portfolios that materially impact a specific composite, the firm must disclose how the firm defines materiality for when the portfolio is removed from the composite and for which periods.

Error Correction

If there is a portfolio with a trade error that materially impacts the composite performance historically, the firm must disclose any change to the GIPS Report resulting from the correction of a material error. Following the correction of the GIPS Report, this disclosure must be included for a minimum of one year and for as long as it is relevant to interpreting the track record. The disclosure is not required to be included in a GIPS Composite Report that is provided to a prospective client or prospective investor that did not receive the GIPS Composite Report containing the material error.

i. Trade error records

Firms may determine the records they will maintain to support how the trade error was identified, analyzed, and corrected. Such records may also include documentation of any controls or processes put in place to prevent the recurrence of the same trade error. Firms could create a template document to maintain records of the steps taken related to each trade error, including any controls or processes subsequently put in place.

Sample Policy

The responsible Risk Team member will complete a Trade Error Incident Report and submit this report to the Trade Error Oversight Committee. The Trade Error Incident Report will be numbered and will include the following information, as applicable:

- Client portfolio(s) affected by the error
- How the error was identified
- Date the error was discovered
- Periods affected by the error
- Date the error was corrected
- Gain/loss calculation and any related reimbursement
- How and when the reimbursement transaction was processed
- Any impact to management fees or performance-based fees
- Any subsequent performance reporting changes
- Steps taken or to be taken to prevent the same type of error from happening again
- Changes made to the trade error policy

Records will be maintained supporting all calculations, discussions with the client, and transactions to correct the trade error. The Trade Error Incident Report will identify a trade error using a trade error number. That trade error number will be used to store all records associated with the trade error, including any supporting Excel calculations for trade error reimbursements, which will be stored in the firm's record-keeping system.

Questions for public comment:

15. Are there any items that should be added to, changed in, or removed from the sample Trade Error Incident Report?

16. Are there any items within this Guidance Statement that would cause difficulties for a GIPS compliant firm?

17. Are there any AI-related issues that need to be addressed within the context of this Guidance Statement?

18. Are there any topics that should be added to, changed in, or removed from this Guidance Statement?

Appendix A. Questions for Public Comment

1. Do you think the difference between the GIPS Standards Trade Error policy and the GIPS Report Error Correction policy is clear?

2. Do you agree with the guidance provided above in regard to the GIPS Standards Trade Error policy?

3. Do you agree with the examples that were provided to determine the definition of "trade errors"?

4. Are the trade error considerations and sample policy language helpful? Should any trade error considerations or sample policy language be added, changed, or removed?

5. Are there any considerations or sample policies for fees that should be added, changed, or removed?

6. When a trade error results in a gain, in what circumstances would the firm keep the gain?

7. Do you agree with the considerations regarding how a firm may reflect a reimbursement in the client's portfolio?

8. Are there any considerations or sample policies for reflecting a reimbursement in the client's portfolio that should be added, changed, or removed?

9. Do you believe that reflecting a gain from a trade error (either as a reimbursement from a loss or as the trade error itself) in performance is misleading or should be allowed?

10. How should a loss from a trade error be reflected in performance?

11. Do you agree with allowing firms to create a policy to determine a materiality threshold for when portfolios with trade errors can be removed from composites?

12. Do you agree with allowing different policies for the treatment of an overstatement or understatement of performance resulting from a trade error?

13. Do you agree with the considerations and sample policies for trade errors in portfolios assigned to a composite?

14. Are there any considerations or sample policies for trade errors in portfolios assigned to a composite that should be added, changed, or removed?

15. Are there any items that should be added to, changed in, or removed from the sample Trade Error Incident Report?

16. Are there any items within this Guidance Statement that would cause difficulties for a GIPS compliant firm?

17. Are there any AI-related issues that need to be addressed within the context of this Guidance Statement?

18. Are there any topics that should be added to, changed in, or removed from this Guidance Statement?