



February 16, 2005

CFA Institute
CFA Centre for Financial Market Integrity
P.O. Box 3668
Charlottesville, Virginia 22903

Reference: Guidance Statement on Error Correction

Dear Sir / Madam:

Thank you for allowing us to comment on the proposed revisions to the Global Investment Performance Standards (GIPS®) relating to error corrections. Our comments are as follows:

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

Yes.

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

Yes. However we believe that the definition of an error - vs. that of an omission - should be clarified and the guidance should apply to both. Also, it should be clarified whether the guidance applies only to errors of a material nature, or all errors discovered. This may be interpreted as some to mean that the guidance should only apply to material errors – when in fact, the guidance should apply to all errors – material or not.

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

No. We believe this undermines the “ethical” nature of the standards. If an error is found and it is an omission or a material error, the error should be restated and republished. If the error is not material, the error should be restated.

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

Yes. We also believe that firms should incorporate into their current policies and procedures a process that looks for errors. We are surprised that the guidance statement does not establish this procedure as a precursory process. If a thorough error-review process is established and performed before publishing material, a large number of restating/republishing could be avoided.

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

Yes. However, we believe the statement should implicitly require firms to be “as specific as possible” when developing policies and procedures for error correction. We also believe that ‘republishing’ should include ‘restating’. The way the section “Reporting of errors (republishing) to prospective clients” is currently written, someone could interpret republishing and restating to be two different events.

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

Yes. However, application question #6 is a bit confusing. In it, you identify that the firm should include a disclosure on all presentations that indicates the presentation has been changed due to an error and this must remain for 12 months. However, in the section entitled “Reporting of errors (republishing) to prospective clients” nothing stipulates a 12 month period. If a 12 month period is required, it should be identified as such in the guidance statement.

Other Considerations:

1. Some managers have a “lock-down” of performance results. Once locked, the data can not be changed. If a manager has a policy to lock performance results, should the manager be required to restate previously locked results? In other words, can a manager set a policy **not** to restate once the numbers are locked?

2. Under the section “Definition of Materiality”, it states that “Firms should disclose that their policies and procedures on error correction are available on request. We feel that “should” in this statement makes it unclear as to whether or not this is a required disclosure or a recommended disclosure. It would be helpful if this was clarified. Also, we feel that the disclosure should actually reflect that ALL policies and procedures relating to compliance with the GIPS standards are available upon request – not just those that cover error correction.

Thank you again for the opportunity to comment on the above proposed changes.

Sincerely,

David Yuska
President
CAPS, Inc.