

GIPS Error Correction Policies

John D. Simpson, CIPM

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Definitions (1):

- **Error:** An error, which can be qualitative or quantitative, is any component of a GIPS [Composite/Pooled Fund/Asset Owner] Report that is missing or inaccurate. (Provisions 1.A.20, 1.A.21, 21.A.16)
- Errors in GIPS Reports can arise from, but are not limited to, incorrect, incomplete or missing:
 - Composite/pooled fund/total fund returns or assets,
 - Total firm/asset owner assets,
 - Benchmark returns,
 - Number of portfolios in a composite,
 - Three-year annualized ex post standard deviation, and
 - Disclosures.

Definitions (2):

- **Material error:** An error in a GIPS [Composite / Pooled Fund / Asset Owner] Report that must be corrected and disclosed in a corrected GIPS [Composite / Pooled Fund / Asset Owner] Report.
(GIPS Glossary)

Relevant provisions (1):

- 1.A.20 and 1.A.21:
 - Material errors in GIPS Reports must be corrected
 - Corrected GIPS Reports must be provided to current verifiers, as well as to those that received the erroneous report, including current clients, current investors and former verifiers
 - Reasonable effort must be made to provide corrected GIPS Reports to current prospects that received the erroneous report
 - No requirement to provide corrected GIPS Reports to former clients or former prospects
- 21.A.16:
 - Material errors in GIPS Reports must be corrected
 - Corrected GIPS Reports must be provided to current verifier, as well as oversight bodies and previous verifiers that received the erroneous report

Relevant provisions (2):

- 4.C.38, 5.C.37, 6.C.31, 7.C.33, 24.C.31:
 - Corrected GIPS Reports must include disclosure of the change resulting from correction of material errors
 - This disclosure must be included for a minimum of one year and for as long as it is relevant to interpreting the track record
 - Disclosure is not required in a GIPS Report that is provided to prospects that did not receive the erroneous report (this allowance only made for firms, not asset owners)

Guidance: determining materiality:

- A definition of materiality that firms / asset owners might find useful as a starting point:

“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.”

- Factors that may be considered:
 - magnitude of the error, in absolute and relative terms
 - whether the error is material relative to the benchmark
 - whether returns are overstated or understated
 - significance of the missing or incorrect disclosures
 - whether the error affects returns over time or is a timing issue
 - period(s) affected by the error
 - if policies will be asset owner-/firm-wide, or on a composite-, or pooled fund–, or total fund-specific basis, and
 - whether the firm has any legal or regulatory obligations related to error correction

Guidance: treatment of non-material errors:

- Three options for dealing with non-material errors in GIPS Reports:
 - Take no action: does not require a change to GIPS Report (error is deemed immaterial)
 - Correct the GIPS Report with no disclosure of the change and no distribution of the corrected GIPS Report (error is deemed not material)
 - Correct the GIPS Report with disclosure of the change and no distribution of the corrected GIPS Report (error is deemed not material)

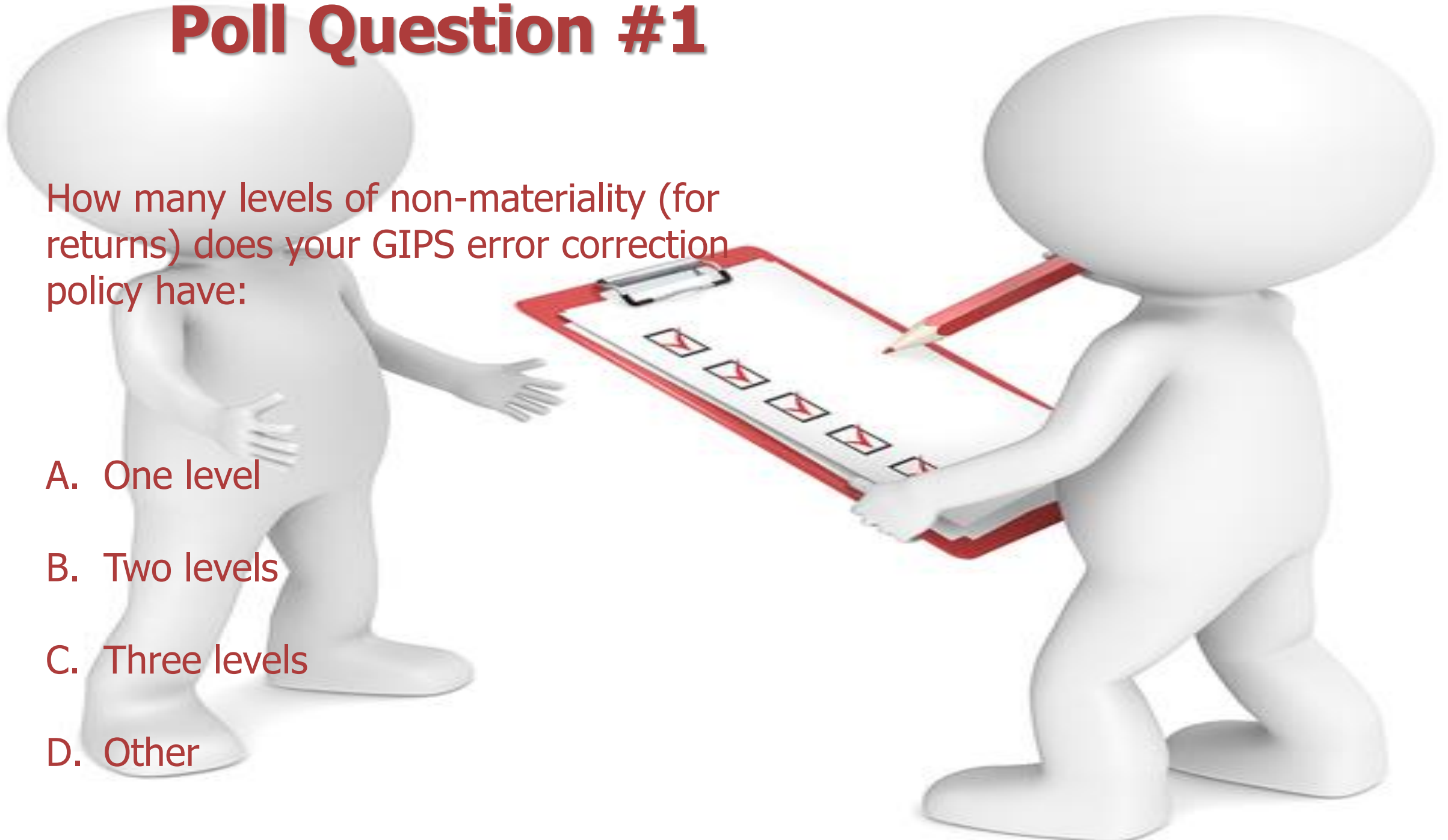
Discussion Topics (1)

What are your biggest challenges with respect to establishing/maintaining an error correction policy?

Poll Question #1

How many levels of non-materiality (for returns) does your GIPS error correction policy have:

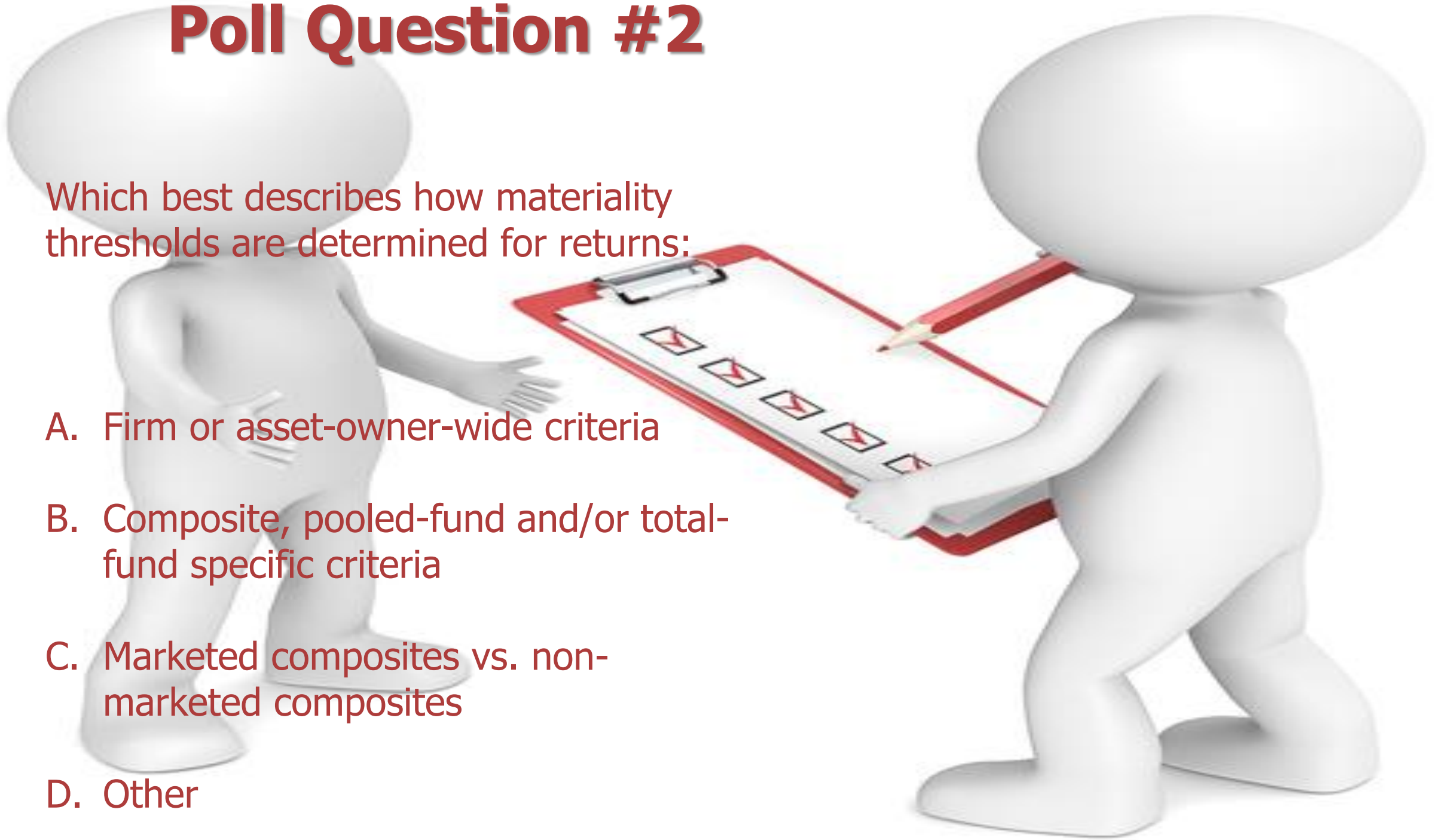
- A. One level
- B. Two levels
- C. Three levels
- D. Other



Poll Question #2

Which best describes how materiality thresholds are determined for returns:

- A. Firm or asset-owner-wide criteria
- B. Composite, pooled-fund and/or total-fund specific criteria
- C. Marketed composites vs. non-marketed composites
- D. Other



Poll Question #3

Which best describes how materiality thresholds for returns have changed since error correction policy was established:

- A. Materiality thresholds have been revised downward (i.e., made tighter)
- B. Materiality thresholds have been revised upward (i.e., made looser)
- C. Materiality thresholds have not changed
- D. Other



Poll Question #4

What type of error tracking/logging is typically provided to your GIPS verifier:

- A. Full historical error log
- B. Error log for most recent year
- C. None
- D. Other



Other Discussion Topics (2)

- Use of GIPS error correction policy for other types of reporting:
 - Other marketing materials?
 - Client reporting?
 - Reporting of analytics (attribution and risk)?
 - Market commentary included with reporting?

Related topics: Changes that aren't necessarily "errors" but may require logging involve materiality decisions (1)

- GIPS Advertisements
- Changes related to the SEC Marketing Rule
- Changes related to changes in systems used
- Benchmark changes
 - Benchmark provider errors
 - Changes due to manager constituents in a peer group or similar benchmark being changed

Related topics: Changes that aren't necessarily "errors" but may require logging involve materiality decisions (2)

- Use of last available historical price or preliminary, estimated value as fair value:

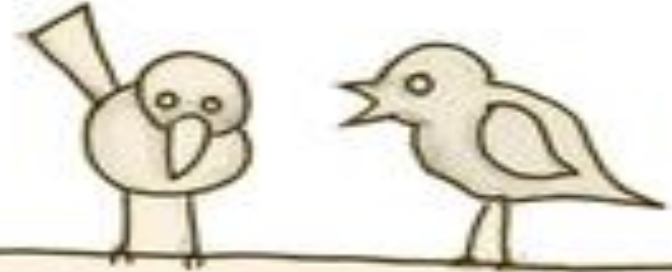
If the FIRM uses the last available historical price or preliminary, estimated value as FAIR VALUE, the FIRM MUST:

- a. Consider it to be the best approximation of the current FAIR VALUE.
- b. Assess the difference between the approximation and final value and the effect on COMPOSITE or POOLED FUND assets, TOTAL FIRM ASSETS, and performance, and also make any adjustments when the final value is received.

- *“If the final values and resulting performance differ materially, firms must determine whether any adjustments to the composite or pooled fund must be made on a prospective basis or retroactively.”*

References:

- GLOBAL INVESTMENT PERFORMANCE STANDARDS (GIPS®) FOR FIRMS 2020
- GLOBAL INVESTMENT PERFORMANCE STANDARDS (GIPS®) FOR ASSET OWNERS 2020
- GIPS® Standards Handbook for Firms Explanation of the Provisions in Sections 1–8, November 2020
- GIPS® Standards Handbook for Asset Owners Explanation of the Provisions in Sections 21–26, November 2020
- Survey Report of Firms on GIPS® Standards Error Correction Policies (2023)



John D. Simpson, CIPM
JSimpson@SpauldingGrp.com

