Fundamentals of Error Corrections

The following sets out the key points agreed by TA Forum Members during discussions in 2019 - 2020 on the topic of Error Correction in respect of their clients. Each TA Forum Member will determine its own operational approach and will maintain whatever policies and procedures it considers are appropriate to justify its particular approaches.

References to "Firm" in this document relate to the regulated firm having regulatory responsibility to the investor in respect of asset transactions (whether as AFM or some other regulatory context).

Different Firms and TPAs may use a range of terms when discussing the themes outlined in this document. For clarity, this document uses the following language:

- "Redress" to mean any actions needed to return the Client to the original intended outcome. Therefore "redress" might include both capital and income elements, according to the error being rectified.
- "Compensation" to mean any sums *above any 'redress' due* made to the Client to apologise for the error.

Number	Fundamental	Additional Note
1	The Firm must ensure that it puts the Client into the original intended position.	There are reasons why a Firm may choose to provide *better* terms than the original intended transaction, though the firm is under <u>no regulatory obligation</u> to do so.
2	The Firm should consider whether there is any potential that it may inadvertently make a profit as a result of error correction activity, and decide its approach to such scenarios.	Firms choosing to give the Client the 'better price' when correcting an error are less likely to inadvertently profit. Firms that provide a better deal than originally intended are providing redress and compensation (as part of the deal). A firm may choose to pay any profits after redress to the Fund or a Charity, though are under no obligation to do so.
3	Where "redress" requires a payment by the Firm (e.g. if some benefit that will otherwise be missed, such as interest or a missed distribution), the Firm should ensure that it understands the taxable position of any such sums and clearly communicates that information to the Client concerned.	For example, if a 'missed deal' results in a Client not receiving a Fund Distribution such that the Firm pays the Client a sum recognising that missed distribution, the Firm must treat that sum according to prevailing tax rules. Note that the tax rules may require the Firm to deduct income tax from such sums. Communications to the Client must therefore be clear as to the nature of any payments made.

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4	If the Firm chooses to pay "compensation" to a Client (i.e. giving value *beyond the necessary redress*) then the Firm must ensure that it understands the taxable position of that money and clearly communicates that information to the Client concerned.	For example, "ex gratia" payments or other sums that are not specifically part of returning the client to the original intended position.
5	Where correcting a Client's position requires the Firm to use its own money to purchase assets for the Client, the Firm should ensure that such money is allocated and segregated in line with the processing of that corrective activity.	If such an asset purchase is recorded within the investor's account, such that the firm's records would reflect settlement using client money allocated to that Client, then the Firm should allocate the relevant sum as client money. If however the asset purchase is made outside of the investor's account then there may be no need to allocate corrective money to the Client concerned. Having determined its approach, the firm should then consider whether any operational scenario would require Prudent Segregation to be applicable.

Number	Fundamental	Additional Note
6	If the Principal that executed a trade (such as an AFM) identifies an error then it follows that such a Principal might retrospectively update its internal records to reflect the investor-facing transaction as it should have been performed. However, if the Principal chooses to do so it must ensure that any potential regulatory consequences are considered and relevant actions taken.	If the Firm considers its approach to Error Corrections is retrospectively correcting its past records of investor-facing transactions, regulatory aspects to consider would include: • Whether 'Trade Confirmation Information' has been issued within one business day of executing the trade. • Whether the 'Trade Confirmation Information' will appropriately reflect the date of instruction, date of execution, and reference valuation date. • Whether periodic statements etc. issued to the client will reflect the same dates as the contract note. • For an AFM, whether retrospective execution of the investor trade has resulted in COLL breaches relating to areas such: - Late payment of redemption monies (four business days after execution); - Retrospective negative box positions (if the number of registered units exceeds the number of units issued) - Any implication for the accuracy of the register. Whether the firm's approach to such matters creates any deficiencies for its CASS processes and allocation records (for example, the dates on which monies are determined 'due and payable from the client to the firm')