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CFA Institute
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Re: Guide to Best Practices of Return Attribution Reporting Exposure Draft

Dear CFA Institute Staff and Volunteers:

The preparation of this Guide to Best Practices of Return Attribution Reporting is very beneficial for the industry and we commend you for taking this on. We appreciate the opportunity to comment on the exposure draft and respond to questions.

Drawing on my years of supporting attribution reporting for asset management firms, these comments reflect direct experience—and, in some cases, the practical pain points—encountered in producing and maintaining attribution reports.

Thank you again for the opportunity to comment.

Kind Regards,

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I. Executive Summary

This submission provides targeted suggestions, questions, and responses to enhance clarity, practicality, and alignment with industry recommendations in the Guide. Key areas include expanding the scope to cover all client reporting, clarifying attribution over various periods, addressing residuals and pricing inconsistencies, and handling real-world issues like withholding taxes and management changes.

Suggestions for Improvements

- **Scope and Policies**: Explicitly define if the Guide applies to prospective and current clients; recommend applying best practices universally. Revise wording on segment weights, residuals (prioritize fixing errors over smoothing), and withholding taxes (align with GIPS).
- **Attribution Challenges**: Add guidance on differing pricing sources (cross-reference to Residuals section), segment definition changes, and interaction effects (list alternatives to selection pairing and remove bias).

Questions for Consideration

- Confirm if endorsing linked representative portfolios conflicts with SEC hypothetical rules and CFA Institute's stance on regulatory disconnects.
- Note arithmetic vs. geometric linking as a geographic preference.
- Discuss relevance of short periods, market cycles (1-3 years), and manager change disclosures.

Responses to CFA Questions

- **Representative Portfolio Policies**: Yes, firms should offer them upon request for transparency, akin to GIPS composite policies.
- **Attribution Periods**: Yes, typically shown for 3- and 5-year periods (sometimes longer), on a cumulative basis.
- **Challenges >1 Year**: Define "shorter periods"; address short-period irrelevance, market cycles, and management changes with recommended disclosures.

II. Guide to Best Practices of Return Attribution Reporting Suggestions

1. **Introduction (page 1) Scope of Document**

This Guide for Best Practices is framed around attribution reporting for marketing an investment strategy, but attribution is also used in reporting to existing clients. The document frequently references attribution for representative accounts or composites, so it should clearly define whether its scope covers all client reporting (prospective and current) or only prospective clients. If the scope is limited to prospective clients, the Guide should recommend that firms apply these best practices to all attribution reporting.

2. **Segment Weights (page 6) Third Sentence**

Rephrase for clarity: "Segment weights in attribution are often less meaningful over longer periods than over shorter ones."

3. **Attribution Calculation Types (page 12) – Holdings-Based Attribution: "Holdings based attribution can use the same pricing sources."**

Should the Guide address how to handle attribution when different pricing sources are used (portfolio vs. benchmark)? Using different pricing sources can create residual attribution effects, and it may be helpful to mention this and cross-reference to the section on Residuals for further discussion.

4. **Residuals (page 14) – Items 3 & 4 In the List**

The guidance implies that residuals from errors can simply be smoothed or linked away using an attribution model algorithm. To prevent misinterpretation by unscrupulous firms, shouldn't the Guide emphasize resolving errors first, rather than eliminating their residual impact?

5. **Additional Topics (page 17) – Withholding Taxes**

A common practical example is differing treatment of withholding taxes between portfolio and benchmark, which can be impactful in attribution reporting. This should be addressed here, with recommendations aligned to GIPS standards on portfolio/benchmark withholding tax handling.

6. **Other Considerations (page 19) – Policies and Procedures: last sentence in paragraph**

Revise to: "Firms should make policies and procedures for calculating and presenting return attribution available upon request."

III. Guide to Best Practices of Return Attribution Reporting Questions for Further Consideration

1. **Representative Portfolios or Composite Returns (page 3) – Linking of the track record of old and new representative portfolios together**

There have been questions in the industry about whether the performance of linked representative portfolios is considered hypothetical performance under SEC rules. While the described linking approach is reasonable, and the most recent Q&A further clarifies that attribution is not performance, linked performance is an input. If the CFA Institute endorses it, could that create tension with the SEC, and what is the CFA Institute's position when its guidance conflicts with SEC requirements?

2. **Attribution Effects (page 8) – Segment Weights**

Should there be a section that addresses changes to segment definitions and resulting security/ segment weight changes? These can significantly affect attribution reporting, particularly if the benchmark and portfolio reflect those changes differently.

3. **Arithmetic vs. Geometric Methods (page 11) – First Paragraph**

Based on my experience, when talking about arithmetic vs. geometric attribution at industry events, the interpretation was that arithmetic vs. geometric linking was largely a geographic preference. Is that still the case, and would it be worth mentioning in the guidance?

4. **Interaction Effect (page 12) – First Paragraph**

This Guidance strongly suggests combining interaction with selection effect, but the Recommendation omits any mention of selection effect bias, creating a disconnect between the paragraph and what follows. Are there instances where combining interaction with the allocation effect is appropriate? If so, list them explicitly and remove the bias toward pairing interaction with selection.

IV. Reponses to the CFA Institute Questions for Public Comment

1. **Should firms disclosure that the policy for selecting representative portfolios is available upon request?**

Yes. Representative portfolios can sometimes provide prospects with more relevant information than composites. While firms must maintain (and offer to provide) policies to describe their compliance with the GIPS standards, it would benefit the industry if firms also maintained and offered to provide representative portfolio selection policies upon request.

2. **Does your firm show attribution for periods greater than one year?**

Yes. My experience is that attribution was often reported for periods of 3-years and/or 5-years. At times, even longer periods were reported.

3. **Are there challenges with presenting attribution periods greater than one year that are not addressed in this Guide?**

The term "shorter periods" should be defined explicitly; based on the examples, it appears to mean 1-year and quarterly attribution.

Other considerations:

- Attribution reporting for time periods that are too short. Just as very long horizons can make attribution less meaningful, extremely short periods (for example, one day) can also produce attribution that may not be meaningful.
- It may be helpful to note that attribution is often most relevant when evaluated over a market cycle, which can sometimes span roughly 1–3 years.
- The Guide could address how to handle periods that include portfolio management changes and recommend disclosures that describe those changes and any resulting adjustments to the investment process, as this information is highly relevant to users of attribution.

4. **For periods greater than one year, does your firm calculate attribution on an annualized or cumulative basis?**

My experience is that attribution was typically calculated on a cumulative basis.