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VIA EMAIL

CFA Institute  
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**Re: CFA Institute – Exposure Draft Guide for Best Practices in Return Attribution Reporting**

The Canadian Investment Performance Council of CFA Societies Canada<sup>1</sup> (CIPC) appreciates the opportunity to provide comments on the Exposure Draft Guide for Best Practices in Return Attribution Reporting.

**Preliminary Remarks**

We strongly agree with and support the principles of fair presentation and full disclosure, particularly regarding policies for portfolio selection, attribution calculation, and reporting. We also recognize that there are varying approaches to performance attribution and acknowledge the challenges these present. In this context, we have outlined our recommendations and identified areas for further discussion in the response below.

Please see below for our responses to the questions from the exposure draft.

***Question 1: Should firms disclose that the policy for selecting representative portfolios is available upon request?***

The committee's position was **mostly yes**: firms should disclose that their policy for selecting representative portfolios is available upon request. This disclosure supports the GIPS® standards principle of transparency and full disclosure, and allows prospective clients to understand the methodology used to select representative portfolios. The policy should outline objective, pre-established criteria that are consistently applied and aligned with the composite's investment mandate, rather than designed to present more favourable performance or to present the returns in the best possible light. Such disclosure is consistent with GIPS standards' best practices for fair representation and full disclosure.

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<sup>1</sup> The Canadian Investment Performance Council (CIPC) is an advocacy council for CFA Societies Canada, representing over 21,000 Canadian CFA charterholders, and the 12 CFA Institute Member Societies across Canada. The council includes investment professionals across Canada who review regulatory and standard setting developments involving matters relating to investment performance in Canada. Visit [www.cfacanada.org](http://www.cfacanada.org) to access the advocacy work of the CIPC or follow us on [LinkedIn](https://www.linkedin.com/company/cfacanada).



In addition, having a documented policy demonstrates accountability: the firm commits to following best practices and is prepared to answer client questions about the process when requested. This reinforces confidence in the firm's governance and adherence to fair representation principles.

However, some committee members expressed concerns that this disclosure may not be necessary, as the referenced guide already provides sufficient direction for maintaining high standards in portfolio selection. They cautioned that disclosing the policy could increase requests from prospective clients, require additional resources, and potentially lead to compromises in how policies are written. It may also create a false sense of transparency and add administrative complexity to ensure clients fully understand the policy.

***Question 2: Does your firm show attribution for periods greater than one year? If so, what is the longest period shown? Are there challenges with presenting attribution periods greater than one year that are not addressed in this Guide?***

It is not standard practice across the industry to present attribution results for periods longer than one year, and there is no unanimous or consensus approach. However, some firms do provide multi-year attribution, and the longest period shown will depend on each composite or firm. For example, it can range from 3 years, 5 years or even since inception depending on the client requests and composite characteristics.

When attribution is presented for periods greater than one year, the primary objective is to demonstrate consistency in value-added decisions over a portion of the investment cycle—for example, to illustrate the impact of asset allocation decisions over time.

**Challenges with multi-year attribution not addressed in this Guide:**

Current recommendations in the Guide regarding which time periods to present are not very detailed. More explicit criteria would help firms decide when and how to present multi-year attribution—such as aligning with composite characteristics, investment cycle phases, or even data accessibility and quality. Clearer guidance would reduce inconsistencies across firms and ensure that multi-period attribution reporting is used when it is meaningful.

The Guide briefly mentions smoothing algorithms but does not provide detailed guidance or references, even though several approaches exist. It would be beneficial to require firms to document which smoothing method they use and to apply it consistently. Clear documentation would improve transparency and comparability, reducing the risk of misinterpretation.

Additionally, long-term attribution results can often appear counterintuitive. For example, the portfolio weights presented in attribution reports—such as end weights or average weights—may not allow for a clear understanding of the attribution effects and can even create confusion when interpreting results over extended periods. To address this, it would be beneficial for the Guide to include clear narrative guidance supported by examples that illustrate how attribution effects evolve over time and how they reconcile with cumulative performance. This helps bridge the gap between technical accuracy and client understanding.



Finally, it can be valuable to accompany attribution reports covering periods longer than one year with shorter-period reports, such as individual annual attribution results. This approach helps clients better interpret the data and understand attribution effects over time, reducing confusion that may arise from cumulative results. Providing both perspectives—long-term and annual—enhances clarity and delivers more meaningful insights.

***Question 3: For periods greater than one year, does your firm calculate attribution on an annualized or cumulative basis? What factors influence your decision?***

There is no industry-wide or consensus method for presenting attribution over periods longer than one year. Some firms choose to present attribution on a cumulative basis, as it reflects the total impact of allocation and selection decisions over the entire horizon. Others prefer an annualized basis, aligning attribution with annualized returns for ease of interpretation and comparability.

Factors influencing this decision include:

- **Client Expectations:** Many clients prefer annualized figures for consistency with performance reporting.
- **Interpretability:** Annualized attribution can make results easier to compare across composites and time periods, while cumulative attribution shows the full effect of decisions over the reported period. However, annualizing partial periods can introduce challenges and make reports harder to interpret, as this adjustment may create confusion for clients when reviewing attribution effects.
- **Methodological Considerations:** Annualizing attribution requires smoothing or linking algorithms, which the Guide mentions briefly but does not detail. Firms should document the chosen method and apply it consistently.
- **Software(system) Capability:** Industry standard or internal-developed performance attribution tools may default to one format or allow toggling between both.

Whichever method is chosen, firms should clearly disclose it in their Policies and Procedures and ensure it is applied consistently.

***Question 4: Is there any other information related to cash that firms should disclose?***

Cash is typically not part of a benchmark, which makes it an off-benchmark decision. Firms should disclose how cash is treated in attribution, as this can significantly impact the attribution effects. Clear guidance on handling off-benchmark positions, including cash, should be documented in the firm's Policies and Procedures to ensure consistency and transparency.

When a transaction-based attribution approach is chosen, firms should document their policy for handling internal cash flows, as this can materially impact attribution results.

***Question 5: Is there any other information about currencies that firms should disclose?***

If the firm does not make active currency decisions, then a simple or “naïve” method to derive the currency effect is generally sufficient. However, if currency management is



employed, a model such as Karnosky-Singer (1994) should be used, as it separates the currency effect into components attributable to market movements and active currency management.

As noted above, if the portfolio or composite includes multiple currencies—regardless of whether active currency management is applied—a currency effect should be calculated and disclosed. If, for any reason, a multi-currency portfolio does not present a currency effect, the firm should provide a clear disclosure explaining why this effect is not shown. This ensures transparency and prevents misinterpretation.

A consistent method should be applied and documented in the firm's Policies and Procedures to ensure comparability and transparency.

***Question 6: Please share if there is any additional information about the treatment of leverage and derivatives in return attribution that should be disclosed.***

Disclosure about the treatment of leverage and derivatives should only be recommended when their usage is material, to avoid introducing unnecessary complexity in interpreting attribution results while ensuring clients understand the significance of these positions when necessary.

The treatment of leverage and derivatives in attribution requires clear disclosure when material, as these positions often represent off-benchmark bets. Similar to cash, firms should specify how weights and returns for these instruments are calculated and presented. Whichever method is chosen, it should be documented in the firm's Policies and Procedures to ensure consistency and transparency.

For short positions, firms should explain how returns are calculated and presented, and clarify what happens when a segment moves from short to long, or vice versa. It is generally recommended to distinguish between short and long exposures rather than combining them, as this improves interpretability.

### **Concluding Remarks**

Thank you for considering our feedback on the Exposure Draft Guide for Best Practices in Return Attribution Reporting. We appreciate CFA Institute's efforts to advance transparency and consistency in attribution reporting and believe these recommendations will strengthen industry practices. We believe this is a rich area for further thought leadership in support of transparency and consistency, and would welcome and support future related projects.

Should you have any questions or wish to discuss our comments further, please feel free to contact us at [info@cfacanada.org](mailto:info@cfacanada.org). We look forward to continued collaboration on these important initiatives.

(Signed) *The Canadian Investment Performance Council of  
CFA Societies Canada*

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