

**MEMO# 24844**

January 7, 2011

## **Draft Comment Letter on Average Cost Default Method; Comments Requested by January 13**

[24844]

January 7, 2011

TO: BANK, TRUST AND RECORDKEEPER ADVISORY COMMITTEE No. 1-11  
BDAC COST BASIS REPORTING TASK FORCE No. 1-11  
BROKER/DEALER ADVISORY COMMITTEE No. 1-11  
SMALL FUNDS COMMITTEE No. 1-11  
TAX COMMITTEE No. 1-11  
TRANSFER AGENT ADVISORY COMMITTEE No. 1-11  
OPERATIONS COMMITTEE No. 1-11 RE: DRAFT COMMENT LETTER ON AVERAGE COST  
DEFAULT METHOD; COMMENTS REQUESTED BY JANUARY 13

Attached for your review is a draft letter to the Internal Revenue Service ("IRS") and Treasury Department requesting additional guidance on a broker-default rule contained in the final cost basis reporting regulations. [1] Pursuant to the final regulations, if a broker chooses average cost as its default method, and the shareholder does not choose another method prior to the first redemption or transfer, the shareholder may change from average cost to another method prospectively only. Any change in method by the shareholder, even if chosen at the time of the first redemption, will apply to subsequent acquisitions only, and the shareholder must use average cost for shares already in the account.

This rule is detrimental to shareholders and contrary to other provisions in the final regulations, which clearly permit a shareholder to choose any method up until the time of a redemption or transfer. Therefore, the draft letter asks the IRS and Treasury Department to permit shareholders to choose any method at the time of a redemption or transfer, even if the broker's default method is average cost. [2] The draft letter emphasizes the importance of the average cost method to the industry and the urgent need for resolution to this issue.

If you have any comments on this draft letter, please provide them to me at (202) 371-5432 or [kgibian@ici.org](mailto:kgibian@ici.org) no later than 12:00 pm ET on Thursday, January 13, 2011.

Karen Lau Gibian  
Associate Counsel

[Attachment](#)

**endnotes**

[1] See Institute [Memorandum](#) (24610) to Bank, Trust And Recordkeeper Advisory Committee No. 40-10, Broker/Dealer Advisory Committee No. 47-10, Operations Members No. 13-10, Small Funds Members No. 60-10, Tax Members No. 31-10, and Transfer Agent Advisory Committee No. 66-10, dated October 20, 2010.

[2] This request would not affect the provisions in the final regulations regarding revocations of an affirmative average cost election.

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