

MEMO# 30997

December 29, 2017

SEC Publishes Guidance on New Tax Law's Impact on Financial Statement Disclosures and NAV Calculations

[30997]

December 29, 2017 TO: ICI Members

Accounting/Treasurers Committee

SEC Rules Committee

Tax Committee SUBJECTS: Fund Accounting & Financial Reporting

Tax

Valuation RE: SEC Publishes Guidance on New Tax Law's Impact on Financial Statement Disclosures and NAV Calculations

The SEC has issued guidance ([IM-INFO-2017-07](#)) regarding the applicability to registered investment companies of guidance ([Staff Accounting Bulletin 118](#)) that expresses staff views regarding certain financial disclosure implications of [new tax provisions](#) signed into law on December 22.

SAB 118 expresses staff views regarding application of the Financial Accounting Standards Board's (FASB's) Accounting Standards Codification (ASC) 740, *Income Taxes* in the reporting period that includes the new law's date of enactment (December 22).

The new guidance responds to industry inquiries, including from advisers to registered investment companies that are taxable corporations (e.g., certain funds that invest greater than 25% of fund assets in Master Limited Partnerships), regarding NAV implications of the new law's lower tax rates. Any fund that includes deferred tax asset or liability calculations in its NAV will be affected by the new lower corporate tax rate.

Specifically, the new guidance provides that funds may apply SAB 118 to their daily NAV calculations by making a reasonable estimate of the new law's effect. Any future change in that estimate, based upon new or more precise information, would be a change in the estimate and not an NAV error.

The new guidance also notes that registrants must inform investors regarding the material impacts of the new law to their NAV calculations and material provisions for which the accounting is incomplete, if applicable. The disclosure about those impacts may be made in a press release, website disclosure, or some other reasonable manner.

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