

**MEMO# 2025**

July 19, 1990

# **COST ESTIMATES OF IMPLEMENTING PROPOSALS THAT FUNDS PROVIDE SHARE BASIS INFORMATION TO REDEEMING SHAREHOLDERS**

- 1 - July 19, 1990 TO: ACCOUNTING/TREASURERS COMMITTEE NO. 21-90 OPERATIONS COMMITTEE NO. 13-90 TAX COMMITTEE NO. 16-90 TRANSFER AGENT ADVISORY COMMITTEE NO. 23-90 RE: COST ESTIMATES OF IMPLEMENTING PROPOSALS THAT FUNDS PROVIDE SHARE BASIS INFORMATION TO REDEEMING SHAREHOLDERS

As you know, proposals have been made recently that mutual funds provide share basis information to redeeming shareholders. (See Institute Memorandum to Accounting/Treasurers Committee No. 16-90, Operations Committee No. 11-90, Tax Committee No. 12-90 and Transfer Agent Advisory Committee No. 17-90, dated June 20, 1990.) Attached is a memorandum describing the two current proposals, current industry practices, issues regarding application of the proposals and arguments against the proposals. Attached to the memorandum are (1) the proposal prepared by the staff of the House Ways and Means Committee (Attachment A), and (2) a Tax Notes article written by Gene Steuerle discussing a second proposal (Attachment B). The House Ways and Means Committee staff proposal would apparently require that funds provide shareholders with information regarding the basis of redeemed shares but would not require that funds calculate the resulting gain or loss. Under Gene Steuerle's proposal, Congress would (1) eliminate the optional methods described in the regulations under Code section 1012 for calculating shareholder gain upon redemption of mutual fund shares held in a single account (but would permit multiple accounts) and (2) require the fund to calculate the gains and losses on shares redeemed from each account. It is unclear whether these proposals would be effective for existing accounts (but presumably only for new shares in existing accounts) or only for new accounts. On June 27, 1990, a meeting of the Tax, Accounting/ Treasurers, Operations and Transfer Agent Advisory Committees was held to discuss these proposals. The meeting attendees agreed to provide the Institute with information regarding the estimated costs of implementing any required shareholder basis reporting proposal. To date, we have received very little information. Please provide this information, which will be very important to any Institute lobbying effort, at your earliest convenience.

- 2 - Any cost estimates should assume two possible proposals: (1) funds would provide shareholders with original purchase price using either the first-in-first-out ("FIFO") method or average cost method (please note any differences in your costs between the two methods); and (2) funds would compute the gains or losses of redeeming shareholders under either the FIFO or average cost method and taking into account adjustments to basis and disallowances or deferrals of losses. It would be helpful if the

information could be provided in a common format. The following is the information format which we would propose: I. System Costs. A. Development, broken out between: 1. Software Development. 2. Other Ancillary Support (including development of training programs, etc.) B. Hardware Acquisition. 1. Initial needs (if any). 2. Annual Additions. C. Ongoing Maintenance, based on: 1. Adjustments to Cost Basis Calculations (as a result of fund mergers, price fixes in accounts, etc.). 2. Systems Maintenance. II. Ongoing Transfer Agent Costs, broken out between: A. Shareholder Mailings. 1. Postage. 2. Forms (Materials and Printing Costs). B. Telephone Support. Of course, any other applicable costs should also be noted. In addition, we would like whatever estimates you could provide regarding the number of man-hours that it will take to implement either of these proposals and the earliest date that a system implementing these proposals could be in place. If you have any questions or comments regarding these proposals or the cost estimates we are requesting, please call David Mangefrida at 202/955-3521 or me at 202/955-3585. We will keep you informed of developments. Keith D. Lawson Associate General Counsel Attachments KDL:bmb

---

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.