

MEMO# 5026

August 3, 1993

Implementation Guidance for Return of Capital SOP Issued by the Accounting Policy Subcommittee

August 3, 1993 TO: ACCOUNTING/TREASURERS MEMBERS NO. 21-93 INDEPENDENT ACCOUNTANTS ADV. GROUP NO. 2-93 RE: IMPLEMENTATION GUIDANCE FOR RETURN OF CAPITAL SOP ISSUED BY THE ACCOUNTING POLICY SUBCOMMITTEE

To assist in the implementation of Statement of Position 93-2, "Determination, Disclosure and Financial Statement Presentation of Income, Capital Gains and Return of Capital Distributions by Investment Companies", a task force of the Institute's Accounting Policy Subcommittee was formed to provide additional guidance to ICI members. In addition to developing guidance to facilitate the implementation of the SOP, the task force created two multiple-year examples incorporating a number of events/circumstances encountered by investment companies. The examples offer an excellent trail to follow. As the examples were developed two guidelines clearly surfaced as being important. The bear repeating: 1. While the determination of a fund's distribution is based upon tax basis characteristics, presentation in the financial statements is also based on the source of the distribution, i.e. a distribution from net investment income or from realized gains as shown in the statement of changes in net assets should be presented as generally the lesser of the book or tax amount from that source. 2. After all is said and done, amounts remaining in the undistributed income and gain accounts should consist of temporary book/tax differences, amounts related to "book" equalization and any permanent book/tax differences which have not yet been reclassified to paid-in-capital. The guidance and each example developed by the task force are included in attachments A, B, and C respectively. Also included for your consideration in Attachment D are a number of examples of footnote disclosure relating to implementation of the SOP. The examples in Attachments B and C have been considered by the AICPA Investment Companies Committee. While they are not empowered to offer guidance beyond the original SOP, no adverse commentary was received concerning this implementation guidance. If you have questions or suggestions, please feel free to contact members of the task force (Robert DeNormandie 617/574-5367, Tim Jacoby 617/570-6539, Sue Cote 212/214-1227, Theresa Dewar 412/288-1796 or John Gargana 212/848-1851. If you have examples of unique situations which pose interesting questions please forward them to the undersigned. If time permits, they may be addressed on the SOP Implementation Issues panel scheduled for the upcoming Tax and Accounting Conference. Timothy J. Jacoby
Gregory M. Smith Chairman Director - Accounting Policy Subcommittee
Operations/Compliance

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