

MEMO# 6570

January 24, 1995

COST BASIS REPORTING SURVEY

VIA FAX January 24, 1995 TO: TAX COMMITTEE No. 4-95 ACCOUNTING/TREASURERS
COMMITTEE No. 6-95 TRANSFER AGENT ADVISORY COMMITTEE No. 7-95 RE: COST BASIS
REPORTING SURVEY

A bill was recently introduced in the U.S. House of Representatives which would increase (or "index") the cost basis of certain capital assets for inflation. Indexing calculations for shares in regulated investment companies ("RICs") would be complicated by two factors. First, RIC shareholders typically hold multiple blocks of shares purchased at different times and therefore eligible for different inflation adjustments. Second, RIC shares generally would be eligible for indexing at less than 100 percent of the relevant inflation factor because indexing would be available, under the bill, only to the extent that the RIC's portfolio consists of equities that trade on U.S. exchanges. Thus, for example, if a RIC always holds 70 percent of its assets in U.S. equities, its RIC shares would be eligible for only 70 percent of the relevant inflation adjustment. If a RIC currently computing average cost basis for its shareholders were to voluntarily compute an "indexed" average cost, the RIC, rather than its shareholders, could perform these shareholder-level indexing calculations. In assessing whether RIC shareholders would receive and use this information, it would be helpful to know the number of RICs that either currently provide average cost information to their shareholders or plan to provide this information in January 1996 for redemptions occurring during 1995. Request for Information To assist the Institute in assessing the impact that indexing legislation would have on the industry, we would like each fund complex to complete the attached survey. Only one response is needed from complexes with representatives on more than one of the committees receiving this request. Your response should be faxed at your earliest convenience to my assistant, Theresa Brice, at (202) 326-5841. If you have any questions regarding the survey, the indexing legislation or average cost reporting, please call me at (202) 326-5832. Your response to this short survey will be greatly appreciated. Keith D. Lawson Associate Counsel - Tax

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