

**MEMO# 17864**

August 4, 2004

## **FASB ISSUES PROPOSAL ON DISTRIBUTOR ACCOUNTING FOR SALE OF FUTURE 12B-1 FEES; CONFERENCE CALL SCHEDULED FOR AUGUST 12**

[17864] August 4, 2004 TO: ACCOUNTING/TREASURERS COMMITTEE No. 25-04 RE: FASB ISSUES PROPOSAL ON DISTRIBUTOR ACCOUNTING FOR SALE OF FUTURE 12B-1 FEES; CONFERENCE CALL SCHEDULED FOR AUGUST 12 The Financial Accounting Standards Board recently issued a proposed FASB Staff Position addressing distributor accounting for sale of future 12b-1 fees.<sup>1</sup> The proposed FSP indicates that cash received in consideration for transfer of rights to future 12b-1 fees that are not recognized as a receivable by the distributor should be treated as debt or deferred income. Comments on the proposed FSP are due to the FASB on September 2. We have scheduled a conference call on Thursday, August 12 at 2:00 p.m. Eastern time to discuss the FASB proposal. Please notify Agnes Thomas no later than August 10 via email (Agnes@ici.org) if you plan to participate in the conference call. To participate in the call, please dial 888-455-3612 and enter passcode number 24294. The proposed FSP indicates that some distributors have entered into transactions in which the right to receive future 12b-1 fees and CDSCs is exchanged for a lump sum payment from a third party. These exchanges may include some level of recourse and various indemnities that protect the third party in the event that the 12b-1 plan is rescinded by the fund's board. Some distributors entering into such exchanges have accounted for the exchange as a sale of an unrecognized financial asset or as the receipt of fees resulting in full revenue recognition of the future 12b-1 fees and the corresponding recognition of previously deferred expenses. The proposed FSP indicates that the FASB staff does not believe revenue or gain recognition is appropriate at the time the cash is received from the third party for a right to future fees. The FASB staff believes that cash received from a third party should not be considered "fees" as discussed in EITF Issue 85-24. The staff believes that transfers of the rights to future fees that are not recognized as a receivable by the distributor are not within the scope of FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. The FASB staff believes the classification of the cash received from 1 FSP No. FAS 140-b, Application of EITF Issue No. 85-24, "Distribution Fees by Distributors of Mutual Funds That Do Not Have a Front-End Sales Charge," when Future Distribution Fees Are Sold to Unrelated Third Parties. The proposed FSP is available on the FASB website [http://www.fasb.org/fasb\\_staff\\_positions/prop\\_fsp\\_fas140-b.pdf](http://www.fasb.org/fasb_staff_positions/prop_fsp_fas140-b.pdf).<sup>2</sup> a third party should be based on the provisions of EITF Issue No. 88-18, "Sales of Future Revenues," that is, as debt or deferred income. The guidance in the proposed FSP will be effective for transactions entered into after the FSP is finalized and posted on the FASB website. The impacts of

applying the FSP's requirements to previously recognized transactions shall be recognized as a cumulative effect of a change in accounting principle pursuant to the guidance in FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements, and APB Opinion No. 20, Accounting Changes, in the period in which the FSP is posted to the FASB website. Gregory M. Smith Director of Operations – Compliance & Fund Accounting

---

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.