

APPLICABILITY OF STAFF ACCOUNTING BULLETIN NO. 118 TO INVESTMENT COMPANIES IMPACTED BY THE TAX CUTS AND JOBS ACT

Commission staff recently issued Staff Accounting Bulletin No. 118 (“SAB No. 118”),¹ which provides guidance for publicly traded companies, auditors, and others to help ensure timely public disclosures of the accounting impacts of the Tax Cuts and Jobs Act (the “Act”).² In SAB No. 118, the staff recognizes that registrants could potentially encounter circumstances for which the accounting for certain income tax effects of the Act will be incomplete by the time financial statements are issued for the reporting period that includes December 22, 2017, the date of the Act’s enactment.³

Recently, the Division of Investment Management (the “Division”) has received inquiries from certain investment companies as to whether investment companies may rely on guidance in SAB No. 118 with respect to the calculation of daily net asset values (“NAV”). The Division hereby confirms that registrants may rely on the guidance in SAB No. 118 for purposes of calculating NAV and reporting measurement period adjustments.

Further, consistent with Question 2 within SAB No. 118, the Division reminds each registrant that the registrant must disclose relevant information to investors to provide information about the material impacts of the Act to its calculation of NAV 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.

Endnotes

- 1 See Staff Accounting Bulletin No. 118 (Dec. 22, 2017), *available at* <https://www.sec.gov/interps/account/staff-accounting-bulletin-118.htm>.
- 2 SAB No. 118 is applicable to investment companies that account for income taxes under Financial Accounting Standards Board Accounting Standards Codification Topic 740.



3 SAB No. 118 states, in part:

[I]n Company A's financial statements that include the reporting period in which the Act was enacted, Company A must first reflect the income tax effects of the Act in which the accounting under ASC Topic 740 is complete. These completed amounts would not be provisional amounts. Company A would then also report provisional amounts for those specific income tax effects of the Act for which the accounting under ASC Topic 740 will be incomplete but a reasonable estimate can be determined. For any specific income tax effects of the Act for which a reasonable estimate cannot be determined, Company A would not report provisional amounts and would continue to apply ASC Topic 740 based on the provisions of the tax laws that were in effect immediately prior to the Act being enacted. For those income tax effects for which Company A was not able to determine a reasonable estimate (such that no related provisional amount was reported for the reporting period in which the Act was enacted), Company A would report provisional amounts in the first reporting period in which a reasonable estimate can be determined.

Staff Accounting Bulletin No. 118, *supra* note 1.

IM Information Updates are recurring notices regarding the activities of the Division. The Division generally issues IM Information Updates to alert the public—including investors and industry participants—to key developments, such as updates to Frequently Asked Questions, technical improvements to SEC forms, and certain other staff actions. IM Information Updates may also explain administrative and procedural matters, such as how to most effectively communicate with the staff.

This IM Information Update does not constitute staff legal guidance and is not a rule, regulation, or statement of the Securities and Exchange Commission. The Commission has neither approved nor disapproved its content.

The Investment Management Division works to:

- ▲ protect investors
- ▲ promote informed investment decisions and
- ▲ facilitate appropriate innovation in investment products and services

through regulating the asset management industry.

If you have any questions or feedback on this guidance, please contact:

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