

June 29, 2007

Mr. Russ Sullivan
Democratic Staff Director
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510-6200

Mr. Kolan L. Davis
Republican Staff Director
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510-6200

Dear Mr. Sullivan and Mr. Davis:

OppenheimerFunds, Inc. has been helping investors achieve their financial goals since 1960. We are one of the nation's largest asset management companies. As of March 31, 2007, OppenheimerFunds, Inc., including subsidiaries and controlled affiliates, managed more than \$245 billion in assets, including mutual funds having more than 6 million shareholder accounts. OppenheimerFunds, Inc. appreciates the opportunity to comment on the bipartisan staff discussion draft released by the Senate Finance Committee on May 25, 2007. We support the Committee's efforts to help purchasers of securities accurately determine taxes owed by improving the information that is provided to them. OppenheimerFunds looks forward to working with the Committee to develop effective basis reporting rules that will reduce the misreporting of capital gains and losses, as well as address the many challenges and burdens that face mutual funds assisting investors with their compliance obligations.

OppenheimerFunds would like to highlight some of the challenges that Senate Finance Committee's bipartisan staff discussion draft on basis reporting presents and make recommendations that we believe are necessary to implement effective basis reporting systems that improve on today's "best efforts" practices.

- ***Effective Date.*** Any legislative proposal should provide an effective date after the IRS has sufficient time to develop effective regulations for addressing reporting challenges and OppenheimerFunds and brokers have sufficient time to implement modifications to both systems and shareholder communications. The new reporting requirements should be effective for securities acquired 18 months after Treasury regulations are finalized (rather than 18 months after date of enactment). Mutual funds cannot develop or modify their basis reporting systems if they do not know the rules they must follow. Treasury will need to issue implementing regulations. The regulatory process will take time. Mutual funds then will need enough time to develop and test their systems once those regulations are issued.

- Potentially the effective date could be phased in. The first phase would permit mutual funds to report under a good faith standard that would permit reporting to the IRS on the same basis as many fund complexes currently voluntarily report basis information to their shareholders. A later phase would require more rigorous reporting eighteen months after guidance has been issued by Treasury.
- ***Taxpayer flexibility should be maintained.*** Taxpayer flexibility should be maintained so that taxpayers may continue to select any of the methods available to them. Current IRS regulations allow taxpayers to specifically identify which securities they have sold for purposes of calculating basis. If the taxpayer does not use the “specific ID” method, the regulations require him/her to use the “first-in-first-out (FIFO)” method. With respect to mutual funds, taxpayers may also use the average cost method. Any basis reporting proposal should maintain these current-law rules. If a particular method for reporting cost basis to shareholders and the IRS is mandated, shareholders should be allowed to determine their cost basis following one of the other currently available methods.
 - ***Pre-effective date shares.*** Basis reporting requirements should apply prospectively because it would not be feasible to rebuild basis for assets acquired prior to the effective date. Fund groups should be permitted to continue providing cost basis voluntarily on old, pre-effective date shares under the average cost method to shareholders and the IRS, indicating on the Form 1099 that pre-effective shares are reported on the form. Legislative history should indicate that mutual funds would satisfy the reasonable cause exception -- to the extent that average cost calculations include basis on old (pre-effective date) shares, regardless of the source -- without being required to reexamine or redetermine the cost basis previously calculated on pre-effective date shares; this proposal’s effect would be complete penalty relief with respect to the cost basis of the pre-effective date shares.
 - ***Additional guidance needed.*** Guidance around or clarification as to the effect of amended IRC Section 1012 on certain Code provisions affecting basis should be issued: *e.g.* Wash Sales under IRC Sec. 1091, Sales Load Basis Deferral under IRC Sec 852(f), and distribution re characterizations under IRC Sec. 852(b)(4).

As a member of the Investment Company Institute, we participated in the development of their more detailed comments and specifically endorse them. Thank you for the opportunity to comment on the bipartisan discussion draft. We look forward to continuing to work with you to develop a cost basis reporting regime that is both effective and workable.

Sincerely,

John V. Murphy
Chairman & CEO