

FSC Standard No. 2



Equity Trusts - Quotation of Dividend Imputation Credits

September 2006

Main features of this Standard are:

- to indicate to Managers, when reporting dividend imputation credits derived from investments in Australian shares, the formats they may choose to report the credits to their Investors.
- the formula for calculating the franking level of distributed Income.
- the basis for quoting Franking Credits.

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1 Title

- 1.1 This Standard may be cited as FSC Standard No. 2.00 'Equity Trusts - Quotation of Dividend Imputation Credits'.

2 Standards and Commentary

- 2.1 The standards set out in this Standard are shown in bold print. Commentary is shown in normal print immediately after the standard to which it relates, as an aid to the interpretation of the standard.

3 Date of Issue

- 3.1 Originally issued 19 July 1999; updated September 2006.

4 Effective Date

- 4.1 This Standard should be applied in relation to the quotation of dividend imputation credits on or after 1 August 2000. Earlier application of this Standard is permitted and encouraged.

5 Application

- 5.1 When a Manager reports the dividend imputation credits derived from its investments in Australian shares, the Manager may choose to report the credits in one of the following formats:

(i) as franking levels, being expressed as a percentage of Income; or

(ii) as a separate item.

- 5.2 A Manager may elect to report Franking Credits as a franking level. The percentage franked format is intended to permit an improved comparison between Income received from unit trusts and the dividends received from direct investment in shares. Whilst the Manager may have received Franking Credits from different classes of dividends which have resulted from changes to the general company tax rate, the individual credits have lost their character by the time they are distributed by Managers. Accordingly, franking levels are expressed in terms of the general company tax rate prevailing at the time the Income is distributed.

6. Definitions

'Franking Credit' has the same meaning as defined in FSC Guidance Note No. 5.00 'Industry Terms and Definitions'.

'Income' has the same meaning as defined in FSC Guidance Note No. 5.00 'Industry Terms and Definitions'.

'Manager' has the same meaning as defined in FSC Guidance Note No. 5.00 'Industry Terms and Definitions'.

'Investor' has the same meaning as defined in FSC Guidance Note No. 5.00 'Industry Terms and Definitions'.

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7 Franking Level of Distributed Income

7.1 The Franking Level of distributed Income is calculated in accordance with the formula:

$$\text{Franking Level \%} = \frac{A}{B} \times \frac{(1-t)}{t} \times 100\%$$

where:

A is the amount of Imputation Credit

B is the amount of the Income distributed, which includes dividends received, realised assessable capital gains and interest less any management fees deducted from the Income

t is the actual tax rate applying to the credit, expressed in decimal notation

7.2 A Manager may elect to report Franking Credits as a separate item in the following format:

an Effective Distribution of \$x.xx, comprising \$y.yy of net distribution plus \$z.zz by way of Franking Credits.

8 Basis for Quoting Franking Credits

8.1 For advertising purposes, Managers are required to quote the figure pertaining to the last full financial year.

8.2 For existing unitholders, Managers may quote the figure applicable to any distribution on which a tax break up has been carried out.