

Cost Basis Reporting Assessment:

*Beyond Technology- Are You Fully
Prepared?*

A Scivantage and Jordan & Jordan Presentation

Enabling Financial Transactions

▶ Automate

▶ Connect

▶ Transact

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Jordan & Jordan



Presenters



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Agenda

- Regulatory update and initial observations of phase one implementation
- Uncovering gaps in the tactical and/or strategic implementation
- Cost Basis Reporting Assessment: Definition and Benefits
- Question & Answer session

Cost Basis Reporting Update

“The Perfect Storm”



Phase I (Equities)	Cleaning up loose ends
Phase II (Mutual Funds & DRPs)	On cusp of going into effect
Phase III (Fixed Income, Options & Other)	Lack of guidance, lots of complexity
Tax Reporting	Ramping up for 1 st “cost basis era” 1099-B
Transfers	Beginning in 2012, penalties will be enforced

Don't Get Further Behind

Ensure compliance with IRS requirements	
Identify implementation gaps	✓
Mitigate Risk	✓
Uncover surprises before IRS or clients do	✓
Identify & learn from best practices where needs are detected	✓
Turn Cost Basis Reporting into a strategic strength	
Explore service improvement opportunities	✓
Centralize the spokes of CBR for greater control & effectiveness	✓
Gauge state of your firm vs. peer organizations	✓
Identify & justify areas for increased investment	✓

“Get control before it’s out of control”

Uncovering Gaps: Tactical and Strategic

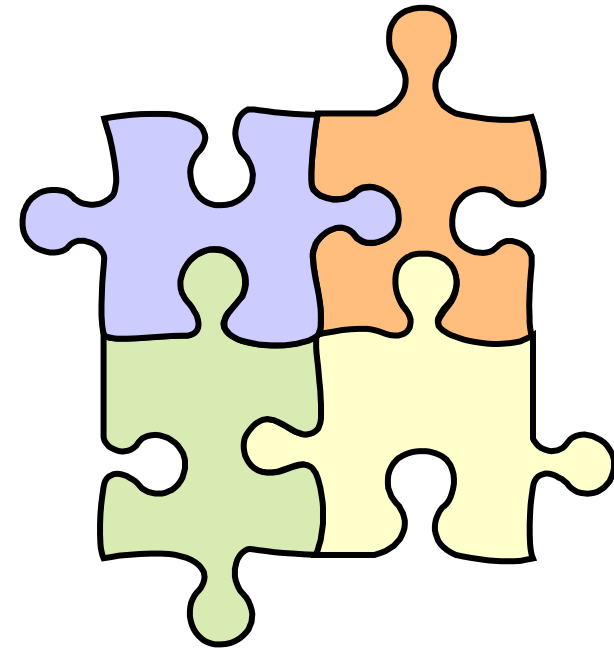
- ▶ Moving rapidly forward
 - What's been left behind?
 - How to manage multiple threads?
- ▶ Tactical gaps may be obvious; but strategic opportunities are being overlooked
 - Coordination of efforts within the firm
 - Knowing/recording what you don't know or don't do
 - Customer value proposition
 - Tax lots as a business product

Cost Basis Reporting Assessment Program

- ▶ Scivantage and Jordan & Jordan have combined skill sets to offer an end-to-end Cost Basis Assessment Program of a firm's situation: IT, Operations, Business Practices and Communications
- ▶ Our combined expertise:
 - ▶ Cost Basis Reporting and Back Office operations
 - ▶ Financial services and project management consulting
 - ▶ Working with clients (broker-dealers, mutual funds, custodians and prime brokers), partners and legislators on tax related issues
 - ▶ Cost Basis technology integration
 - ▶ Data management
 - ▶ Operational workflow efficiency
- ▶ Practical recommendations for corrective actions and proceeding forward with the ongoing implementation

Assessment Areas

- 1) Cost Basis engine and systems integration
- 2) Policies & Procedures
- 3) Workflows & other processes
- 4) Training
- 5) Website and other communication mediums
- 6) Understand activity metrics
- 7) State of readiness for the continued implementations of phases 2 and 3



Critical Topics

- ▶ Tax Lot Handling
- ▶ Lot Relief and Basis Methodologies
- ▶ Wash Sales
- ▶ Short Sales
- ▶ Corporate Actions
- ▶ Transfers
- ▶ Gifted & Inherited
- ▶ Mutual Funds
- ▶ Dividend Reinvestments
- ▶ Tax Reporting
- ▶ Options
- ▶ Fixed Income
- ▶ Documentation
- ▶ Data Handling and Reconciliation
- ▶ Customer Impacts

1) Cost Basis Engine & Integration

- ▶ Does the engine cover the new law sufficiently and has it been adequately reviewed for accuracy?
- ▶ Does your system properly support corrections?
- ▶ Is the engine rules-based and extensible, allowing for future changes to basis tracking?
- ▶ Where are calculations/data processing performed?
- ▶ How is the data transfer of integrated systems handled and reconciled?
- ▶ Is the cost basis data easily accessible for other functions?
- ▶ Are there gaps and issues between systems?

2) Policies & Procedures

- ▶ Procedures needed
- ▶ Policies: often ignored, require reinforcement
- ▶ Departments impacted
- ▶ Customer issues raising policy considerations
- ▶ What is the policy for treating Cost Basis exception items?

3) Workflows & Other Processes

Key elements of the review

- ▶ Documentation / Account opening
- ▶ Disclosures, approvals and customer responses
- ▶ Customer support routing
- ▶ Year 'round & other 1099 processing
- ▶ Firm ownership and departmental coordination
- ▶ Security and entity status
- ▶ Processing of transfers, wash sales, mutual funds and corporate actions

4) Training and Education

- ▶ Firm's approach and attitude toward internal training and client education
- ▶ Review of key concepts of the regulations including the phase-in period
- ▶ Review key areas of the legislation with departmental training and customer education materials
- ▶ Has each topic been covered with the necessary departments and customer base?

5) Website Review

- ▶ Firm specific analysis / Menu bar driven analysis / Section specific analysis
- ▶ Key concepts that should appear on the site
- ▶ Help Center / Tax Center / Cost Basis Terms / FAQs / Disclaimers / Etc.
- ▶ Check for content and effectiveness of website and related communications

6) Understand Activity Metrics

- ▶ Do you know the volumes of data you are processing?
- ▶ Do you know what it means for your business currently and in the future?
- ▶ Data volumes reviewed
 - Back Office processing
 - Cost Basis engine processing
 - Transaction type processing
 - Customer support processing
- ▶ Data reconciliation

7) State of Readiness for Phases 2 & 3

- ▶ Phase 1+ (Regulations defined)
 - Transfers
 - ▶ Physical and CBRS
 - 1099-Bs
- ▶ Phase 2 (Regulations being refined)
 - Mutual funds
 - Dividend reinvestment plans
- ▶ Phase 3 (Awaiting regulations)
 - Fixed income
 - Options

A Program to Fit Your Needs

- ▶ Define objectives to be achieved
- ▶ Determine scope - areas to be reviewed
- ▶ Which approach is right for your firm?
 - Customized program with analysts to assist in examination, analysis, reporting and recommendations
 - Do-it-Yourself evaluation based on CBA templates

Assessment and Findings Reports

- ▶ Overall Assessment Report with recommendations and mitigation strategies relevant to your firm
- ▶ Specific Findings Reports
 - Criteria
 - Condition
 - Cause
 - Effect
 - Recommendation
 - Mitigation
- ▶ Template Quick Assessment Report
 - In Place: Functioning / Not Functioning
 - Not in Place: Disregarded / Overlooked / System Constraint

Value Proposition

- ▶ Mitigate operational and business risks and avoid penalties
- ▶ Help departments identify justifications for increased funding / resource levels
- ▶ Instill institutional memory – ease of employee rotation / replacement
- ▶ Help leverage Cost Basis Reporting to enhance investing strategies and client satisfaction
- ▶ Retain clients and grow assets
- ▶ Improve resource allocation and budgeting



Questions?

Thank you for your participation!



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