

Industry Preparations to Meet Cost Basis Reporting Requirements

Financial Information Forum (FIF) Cost Basis Survey Highlights

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Industry Perspective

- Current status of requirements set to be implemented by January 2011
 - ◆ Awaiting guidance from the Internal Revenue Service (IRS) on numerous issues
 - ◆ Information Reporting Program Advisory Committee (IRPAC) is working to provide industry perspective to the IRS in areas that require definition and clarification
 - ◆ Other industry groups are coming together to address implementation issues (E.g. DTCC, FIF)

- Financial Information Forum (FIF) involvement
 - ◆ Cost Basis Working Group formed to identify common issues, reach consensus to communicate a point of view, and identify practical approaches to achieve solutions
 - ◆ Providing input to the IRS through comment letters and through IRPAC representatives

- Jordan & Jordan role
 - ◆ Provide resources and support to FIF industry-level activities
 - ◆ Assist clients in understanding impact at the firm level
 - Remediation planning, implementation and testing support
 - Vendor selection
 - Project management

FIF Cost Basis Survey Overview

To understand the impact of the new cost basis reporting rules at the industry level, FIF conducted a cost basis survey

> Objectives

- ◆ Identify where IRS guidance is critical
- ◆ Estimate implementation effort and on-going support requirements
- ◆ Understand the biggest obstacles for firms to comply
- ◆ Highlight areas for improved efficiency at the industry level

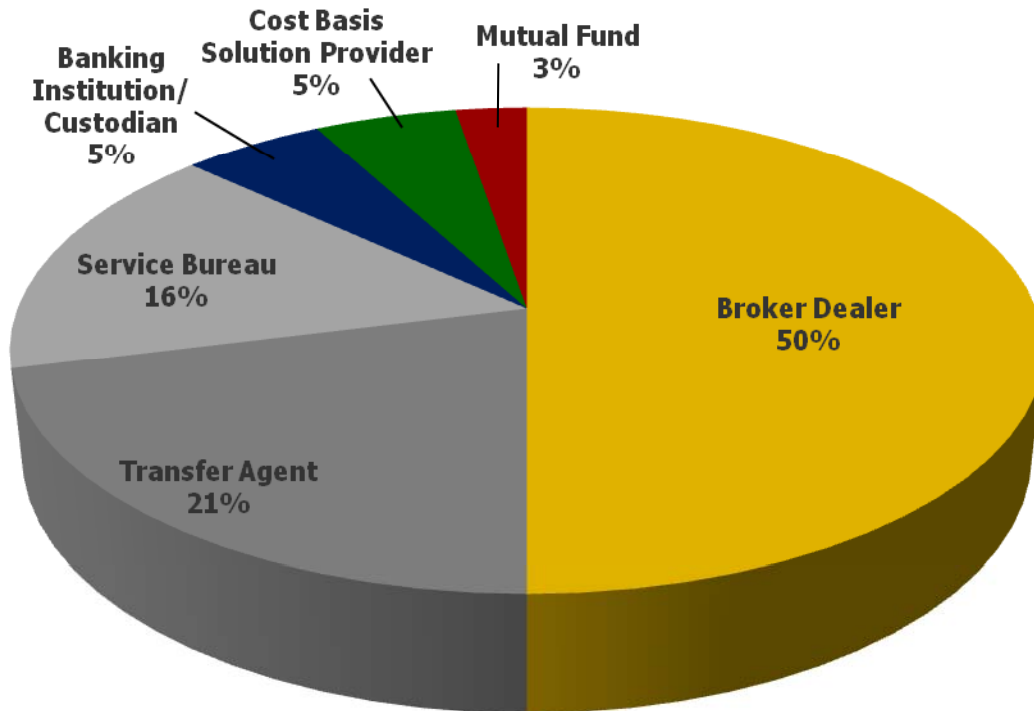
> Focus of Research Questions

- ◆ Existing cost basis support
- ◆ Planning for cost basis changes
- ◆ Implementing cost basis changes

> Distributed to FIF Members and Non-Members

- ◆ Securities Industry Financial Markets Association (SIFMA)
- ◆ Information Reporting Program Advisory Committee (IRPAC)
- ◆ Securities Transfer Association (STA)

FIF Survey Participants

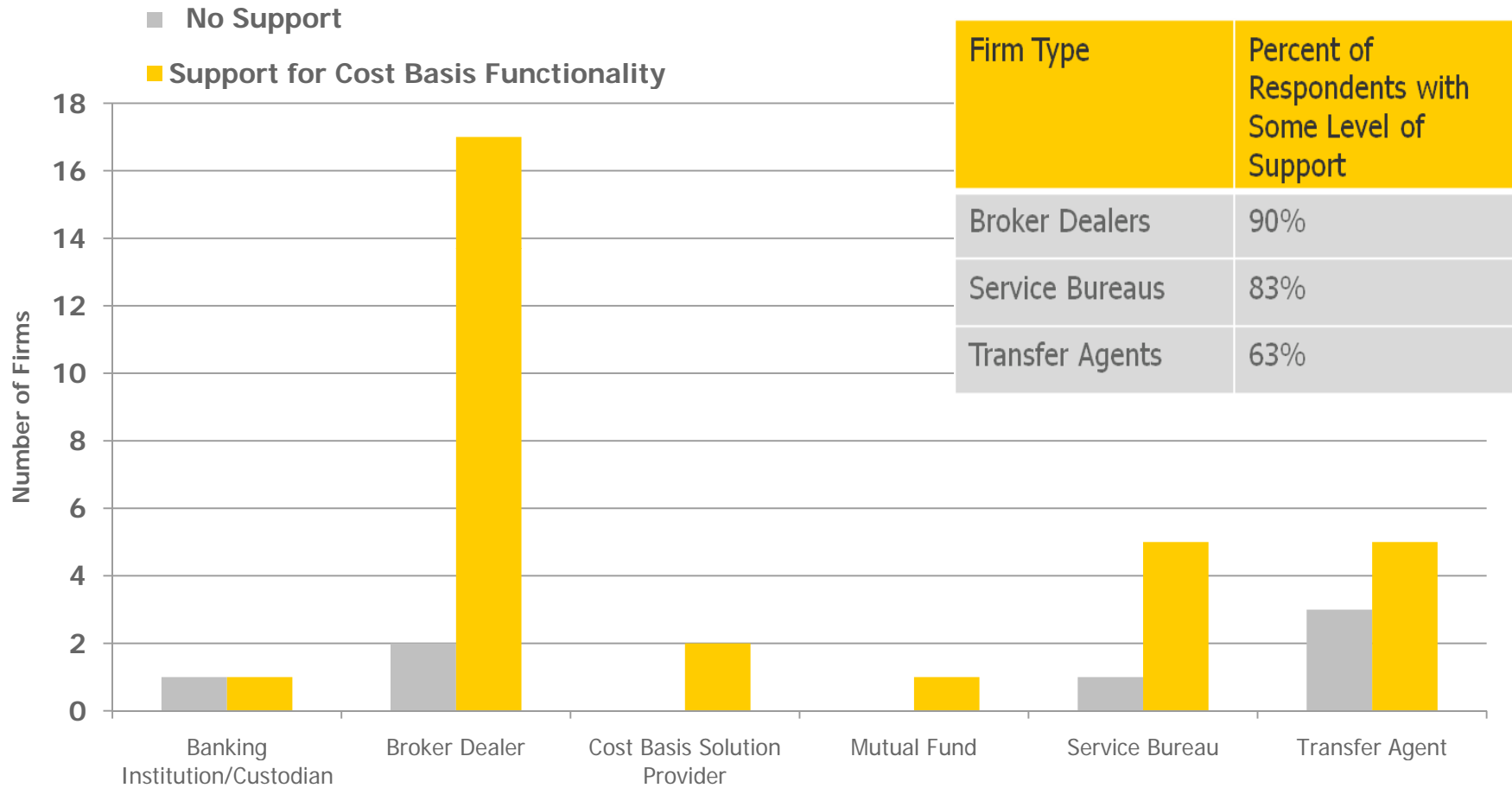


| Firm Type | # of Firms |
|--------------------------------|------------|
| Broker Dealer | 19 |
| Transfer Agent | 8 |
| Service Bureau | 6 |
| Banking Institution /Custodian | 2 |
| Cost Basis Solution Provider | 2 |
| Mutual Fund | 1 |
| Firm Total | 38 |

Source: FIF Cost Basis Working Group Survey, August 2009

Cost Basis Functionality

Current Level of Basis Support



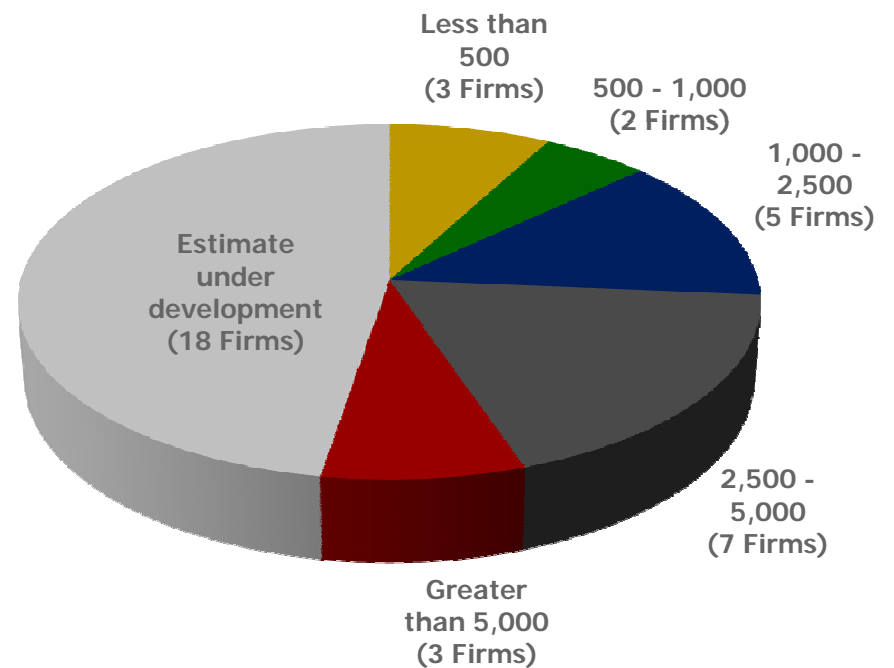
Current Cost Basis Functionality

| Functionality | Broker Dealers (19) | Service Bureaus (6) | Transfer Agents (8) |
|---|---------------------|---------------------|---------------------|
| Wash Sales | 21% | 67% | 25% |
| Corporate Actions – Single Event | 84% | 83% | 13% |
| Corporate Actions – Multiple Events | 74% | 83% | 38% |
| Post Year End Reallocations – Existing Positions | 53% | 67% | 25% |
| Post Year End Reallocations – Previously Disposed Positions | 37% | 67% | 0% |
| Back Valuation | 21% | 67% | 0% |
| Operations staff dedicated to cost basis integrity | 79% | 67% | 25% |
| Client currently has ability to make changes | 42% | 83% | 0% |
| Equities | 89% | 83% | 38% |
| Options | 63% | 83% | 13% |
| Fixed Income | 74% | 83% | 0% |
| Mutual Funds | 79% | 67% | 25% |
| FIFO | 79% | 83% | 13% |
| Average Cost | 53% | 83% | 38% |
| Other Methods | 53% | 67% | 13% |

Preparing to Meet the 2011 Deadline

Estimate of 2011 Work Effort (man hours)

| Firm Type | Planning in Progress | Haven't Started Planning | No Response |
|-------------------------------------|----------------------|--------------------------|-------------|
| Banking Institutions/ Custodians | 1 | 1 | |
| Broker Dealers | 19 | | |
| Cost Basis Solution Providers | 2 | | |
| Mutual Funds | 1 | | |
| Service Bureaus | 5 | 1 | |
| Transfer Agents | 5 | 2 | 1 |
| Total | 33 | 4 | 1 |
| Percent of Total | 87% | 10% | 3% |



Activities Considered in the Work Effort

- Development
 - Software
 - Form-design
 - Database clean-up
 - Testing
 - Training
 - Shareholder communications
 - Programming
 - Updating procedures
-
- 50% of respondents estimate 3-6 months minimum for testing

Departments Involved in Cost Basis Initiative

| Broker Dealers | Service Bureaus | Transfer Agents |
|----------------------------|----------------------|----------------------|
| Operations | Operations | Operations |
| IT | IT | IT |
| Marketing | Product Development | Product Management |
| Finance | Marketing | Shareholder Services |
| Risk Management | QA Analysis | Account Maintenance |
| Legal | Software Development | Dealer Services |
| Compliance | Project Management | Call Center |
| Account Transfers | | Compliance |
| Tax Reporting | | Tax |
| Cost Basis Reporting | | Project Management |
| Clearing Operations | | |
| Prime Brokerage Operations | | |
| Product Development | | |
| Customer Service | | |
| Project Management | | |

Preparing for 2011 and Beyond

| Firm Type | Preparing to Meet All Requirements | Preparing Only for 2011 | Preparing for Some Beyond 2011 | TBD/ Other |
|----------------------------------|------------------------------------|-------------------------|--------------------------------|------------|
| Banking Institutions/ Custodians | 0 | 1 | 1 | |
| Broker Dealers | 4 | 4 | 7 | 4 |
| Cost Basis Solution Providers | 2 | 0 | 0 | |
| Mutual Funds | 1 | 0 | 0 | |
| Service Bureaus | 1 | 0 | 4 | 1 |
| Transfer Agents | 3 | 3 | 1 | 1 |

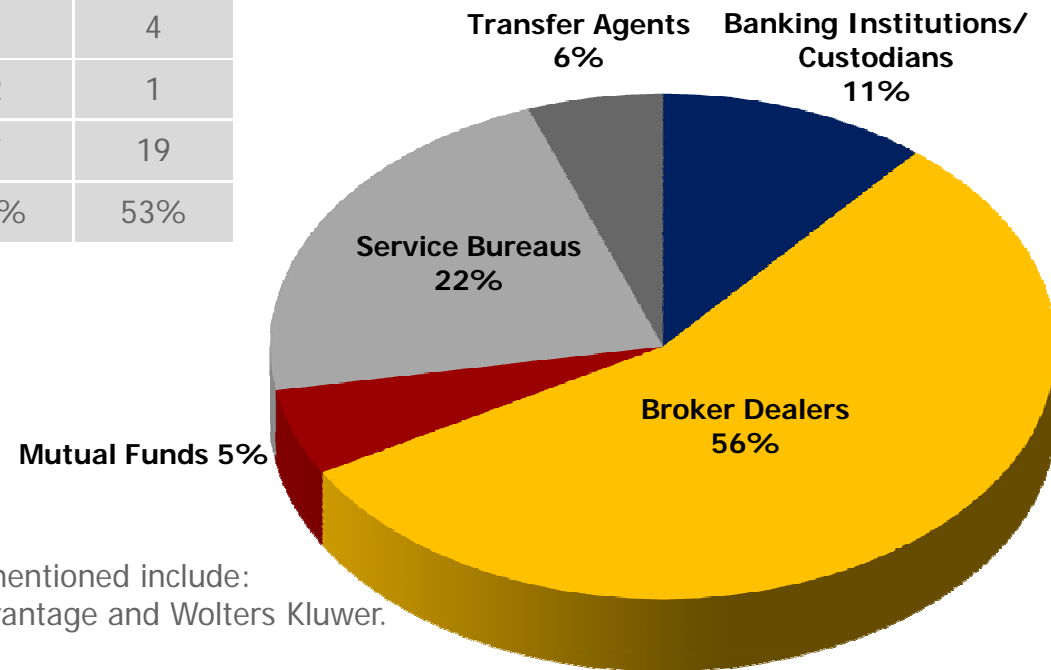
- For many firms, phased reporting requirements will impact development plans.
 - January 1, 2011 - Equities securities transactions
 - January 1, 2012 - Mutual funds and dividend reinvestment plans
 - January 1, 2013 - Other financial instruments including debt securities and options
- 37% of broker dealers, 67% of service bureaus, and 50% of transfer agents are preparing for changes beyond 2011.

“ We are preparing for the full implementation, but will prioritize based on effective dates and based on when guidance is clarified.” *Broker dealer comment*

In-house, Third Party or Hybrid Solution

| Firm Type | Complete In-house | Third Party | Hybrid Solution |
|-------------------------------------|-------------------|-------------|-----------------|
| Banking Institutions/ Custodians | | | 2 |
| Broker Dealers | 3 | 5 | 11 |
| Mutual Funds | | | 1 |
| Service Bureaus | 2 | | 4 |
| Transfer Agents | 5 | 2 | 1 |
| Total | 10 | 7 | 19 |
| Percent of Total | 28% | 19% | 53% |

Firms Planning Hybrid Solutions



Third party vendors mentioned include:
Accubasis, Eagle, Scivantage and Wolters Kluwer.

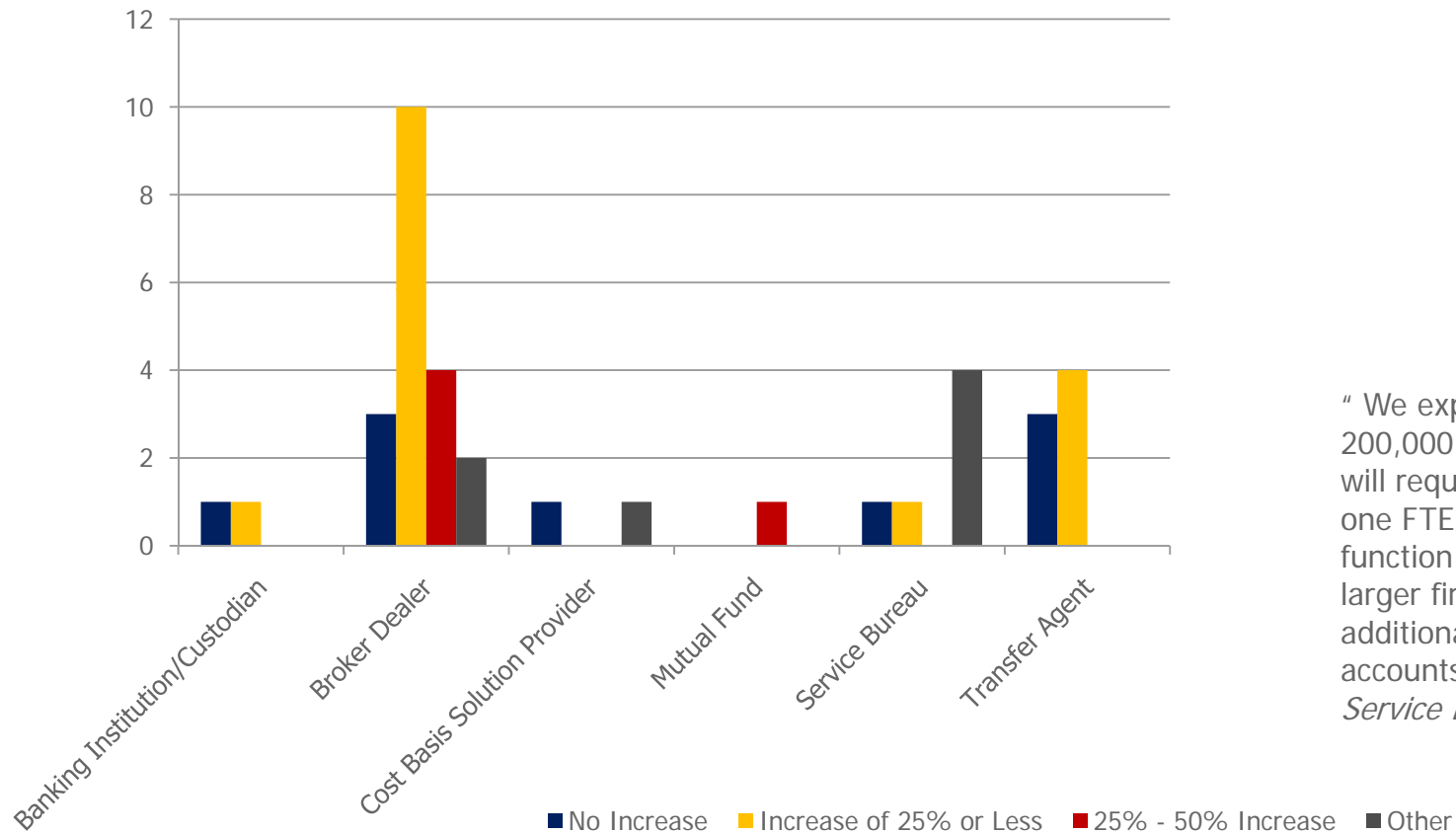
Enabling Clients to Make Cost Basis Changes

| Firm Type | No Changes Permitted in the Future | Changes Permitted in the Future | % of Respondents Expected to Permit Client Changes |
|----------------------------------|------------------------------------|---------------------------------|--|
| Banking Institutions/ Custodians | 0 | 2 | 100% |
| Broker Dealers | 5 | 11 | 58% |
| Cost Basis Solution Providers | 1 | 1 | 50% |
| Mutual Funds | 0 | 1 | 100% |
| Service Bureaus | 0 | 6 | 100% |
| Transfer Agents | 3 | 5 | 63% |

- Broker dealers' comments on allowing client changes:
 - Clients will be able to change default accounting method (i.e. identified lot or "high cost" to FIFO).
 - Limit client options for change once a method has been selected.
 - Changes will still be allowed on pre-effective lots. We'll allow updates in the case of securities inherited or gifts, but we need to determine how to flag those items.
 - Clients cannot alter data tracked in our system; can update data that is missing or was previously manually adjusted.
 - If the security was purchased at our firm, we will allow no changes since our tax lot system will have all adequate data including corporate changes.
 - For covered securities, clients will be required to submit evidencing documents to detail and validate cost basis change.
- Banking/custodian comments:
 - Clients will be allowed to choose methodologies upon account opening or to change as long as the original choice is not average cost; we will not allow going from average cost to some other method.
- Transfer agent comments:
 - Will be allowed to select from various methods. Waiting for additional guidance from the IRS before deciding what other types of changes will be allowed (i.e. providing cost of gifted or inherited shares, pre-effective shares, etc.)

Ensuring Cost Basis Integrity

Anticipated Operational Staff Increases



“ We expect that a firm with 200,000 accounts or more will require a minimum of one FTE to support this function. We estimate that larger firms will require one additional FTE per 500,000 accounts.”

Service Bureau comment

FIF Cost Basis Issues List

- 1099 B Form
- ACATS
- Data Retention
- DRIPS
- Day Trader Exemptions
- Employee Stock Options/Purchase Plans
- Exception Scenarios
- Issuer Reporting
- Lot Selection Methods

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