



FIF Cost Basis Working Group

Cost Basis Survey III

Final Report

For questions regarding this document or to join the FIF Cost Basis Working Group, please contact the FIF Program Office at fifinfo@fif.com

Date: May 25, 2011

Table of Contents

1	Introduction	3
2	Methodology and Participation	3
3	Identifying Existing Cost Basis Support	5
3.1	Security Types	5
3.2	Methodologies	6
3.3	Default to Average Cost Method	7
3.4	Standing Instructions	8
3.5	DRP Functionality.....	9
3.6	Single Account Election.....	10
3.7	Differentiating ETFs from RICs	11
4	Cost Basis Reporting Functionality and Education.....	12
4.1	Cost Basis Modifications and Ability to Export Data.....	13
4.2	Basis Reporting for Non-Reportable Accounts	14
4.3	Reporting Changes – Online and Statements	15
4.4	Client and Internal Cost Basis Education – Communication Media and Training Topics	16
5	CBRS/Non- ACATS Participation.....	18
5.1	CBRS Adoption and Timelines	18
5.2	Firm Transition during CBRS Release	18
5.3	Transfer Statement Transmittal and Follow-Ups.....	19
6	Implementing Cost Basis Changes – Resource Cost	20
6.1	2011 Preparation Costs.....	20
6.2	2012 and 2013 Preparation Costs.....	21
6.3	Staffing Needs	22
6.4	Estimated Industry Costs – 2011-2013	22
7	Getting Ready for 2012 and 2013	24
7.1	Anticipated Changes for Mutual Funds & DRPs.....	24
7.2	IRS Guidance for 2013 Preparation.....	25
7.3	Additional Implementation Thoughts.....	25
8	Conclusion.....	26
9	Appendix 1: FIF Cost Basis Survey.....	28

1 Introduction

The Financial Information Forum (FIF) addresses the issues that impact the financial services industry, from real-time decision support through securities processing. FIF provides a collaborative environment for subscribers to benefit from technology, regulatory, and market innovations. Through its Cost Basis Working Group, FIF has assisted its members in addressing implementation issues associated with the new cost basis requirements, as laid out in the Emergency Economic Stabilization Act passed in October 2008, through surveys and meetings aimed at information sharing and issue resolution. The new requirements put reporting obligations on financial institutions to report adjusted cost basis of covered securities bought on or after January 1, 2011 to the IRS on form 1099-B:

- For 2011, covered securities include stocks, many ETFs, ADRs and REITs
- Mutual Funds and Dividend Reinvestment plans will be covered in 2012
- Additional securities for 2013 include Options, Fixed Income and Other Securities.

As part of its implementation tracking efforts, FIF conducted its third [cost basis survey](#) in January 2011. This survey focused on progress to date with cost basis requirements as we look to 2011 development and testing efforts and estimated the total industry project cost (2011-2013). The survey report covers the following:

- Identifying existing Cost Basis Support and Reporting Functionality
- CBRS/Non-ACATS Participation
- ETFs and RICs
- Implementing Cost Basis Changes and Education Challenges
- Getting Ready for 2012 and 2013

2 Methodology and Participation

[Survey](#) respondents included both FIF and Non-FIF members. The analysis divides the questions under different topics with the question number included in parentheses for ease of identification. The topics are listed below:

- Identifying Existing Cost Basis Support
 - Security Types (Q4)
 - Methodologies (Q5)

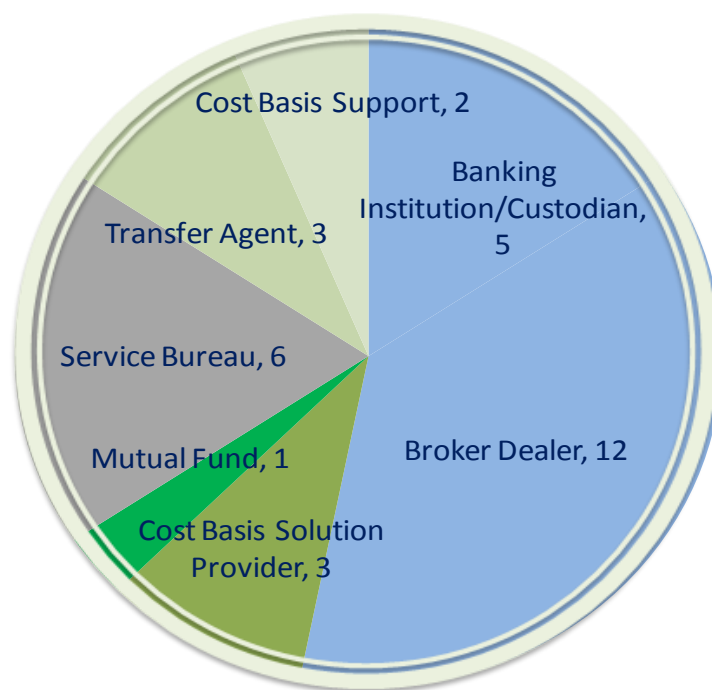
- Default to Average Cost Method (Q7, Q8)
- Standing Instructions (Q6)
- DRP Functionality (Q9)
- Single Account Election (Q10, Q11)
- Differentiating ETFs from RICs (Q29, Q30)
- Cost Basis Reporting Functionality and Education
 - Cost Basis Modifications and Ability to Export Data (Q13, Q14)
 - Basis Reporting for Non-Reportable Accounts (Q31, Q32)
 - Reporting Changes on Statements and Online (Q12)
 - Client and Internal Cost Basis Education – Communication Media and Training Topics (Q15, Q16)
- CBRS/Non- ACATS Participation
 - CBRS Adoption and Timelines (Q22, Q23)
 - Firm Transition During CBRS Release (Q24, Q25, Q26)
 - Transfer Statement Transmittal and Follow-Ups (Q27, Q28)
- Implementing Cost Basis Changes – Resource Cost
 - 2011 Preparation Costs (Q19)
 - 2012 and 2013 Preparation Costs (Q20)
 - Staffing Needs (Q21)
- Getting Ready for 2012 and 2013
 - Anticipated Changes for Mutual Funds & DRPs (Q17)
 - IRS Guidance for 2013 Preparation (Q18)
 - Additional Implementation Thoughts (Q33)

Of the 32 firms that responded to the survey, 28 agreed to have their name listed:

- | | |
|--|---|
| <ul style="list-style-type: none"> ➤ Banking Institution/Custodian <ul style="list-style-type: none"> ○ Bank of America ○ Brown Brothers Harriman ○ Deutsche Bank ○ Wells Fargo ➤ Broker Dealer <ul style="list-style-type: none"> ○ Ameriprise Enterprise Investment Services ○ Charles Schwab ○ Credit Suisse ○ Davenport & Company ○ Edward Jones ○ E*Trade Financial ○ Fidelity Investments ○ JP Morgan ○ Pershing ○ Raymond James ○ Scottrade ○ TD Ameritrade | <ul style="list-style-type: none"> ➤ Transfer Agent <ul style="list-style-type: none"> ○ BNY Mellon ○ Invesco Investment Services ○ Prudential Investments ➤ Service Bureaus <ul style="list-style-type: none"> ○ Broadridge ○ Comprehensive Software Solutions ○ Shadow Financial ○ SunGard Brokerage & Clearance ○ Thomson Reuters BETA Systems ➤ Cost Basis Solution Provider <ul style="list-style-type: none"> ○ Scivantage ○ Wolters Kluwer ➤ Cost Basis Support <ul style="list-style-type: none"> ○ Cokala ○ Interactive Data |
|--|---|

The chart below depicts survey respondents by category:

Figure 1: Survey Participation - Firm Categories



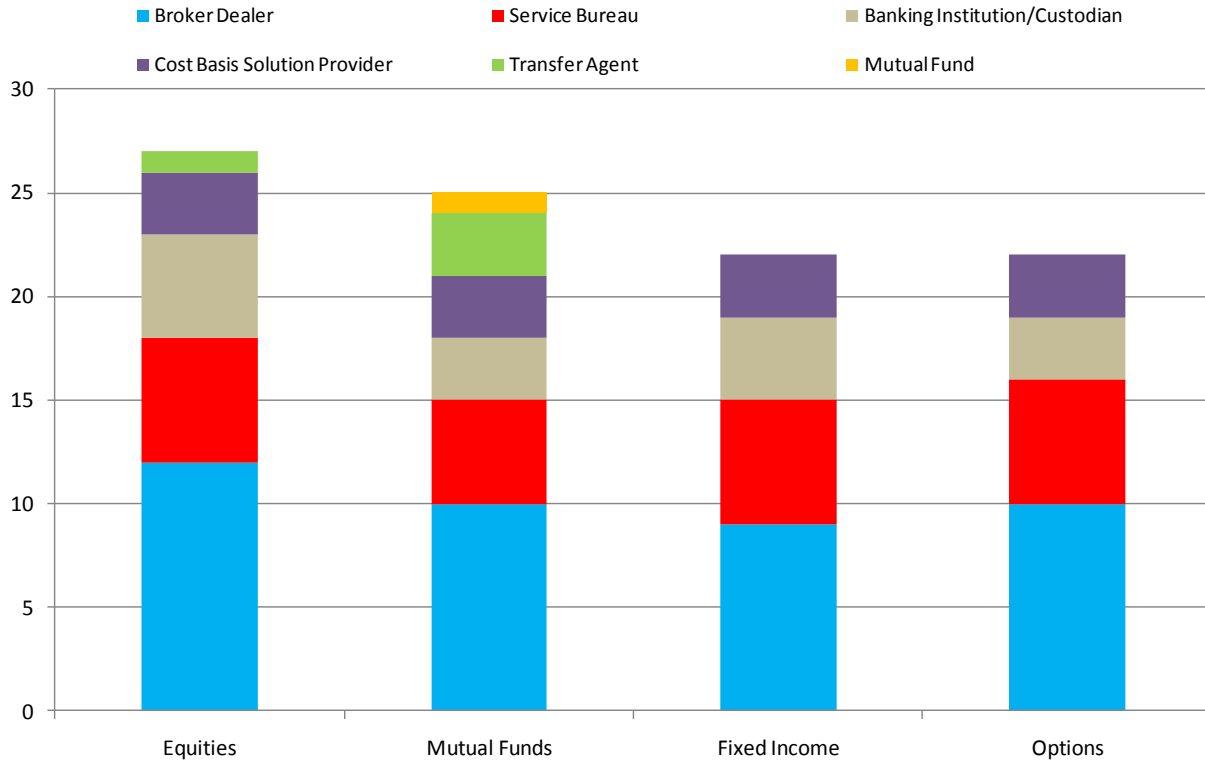
3 Identifying Existing Cost Basis Support

Participants were asked a set of questions regarding support for various security types, methodologies and standing instructions offered to clients in reporting investment gains and losses.

3.1 Security Types

Equities, Options, Fixed Income and Mutual Funds were the four options given to participants to demonstrate cost basis support today.

Figure 2: Cost Basis Systems - Security Types Support



All Banking Institutions/Custodians, Broker Dealers, Cost Basis Solution Providers and Service Bureau survey respondents indicated support for Equities (Figure 2). Mutual Funds were the second most popular with 83% of respondents providing support. Fixed Income and Options are supported on a limited basis by all Service Bureaus and over 80% of Broker Dealer respondents.

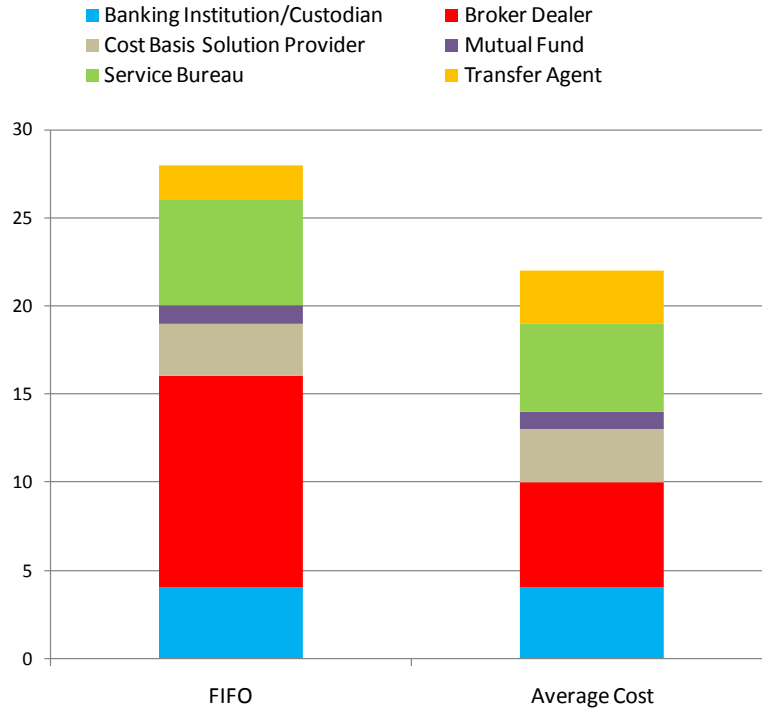
3.2 Methodologies

When questioned on support for cost basis accounting methodologies, all responding Broker Dealers and Cost Basis Solution Providers indicated support for FIFO and 50% of Broker Dealers and all Cost Basis Solution Providers support Average Cost (Figure 3).

From the remaining respondents, 80% of Banking Institution/Custodians provide support for Average Cost and FIFO.

All Service Bureaus facilitate FIFO and 83% pointed out support for Average Cost

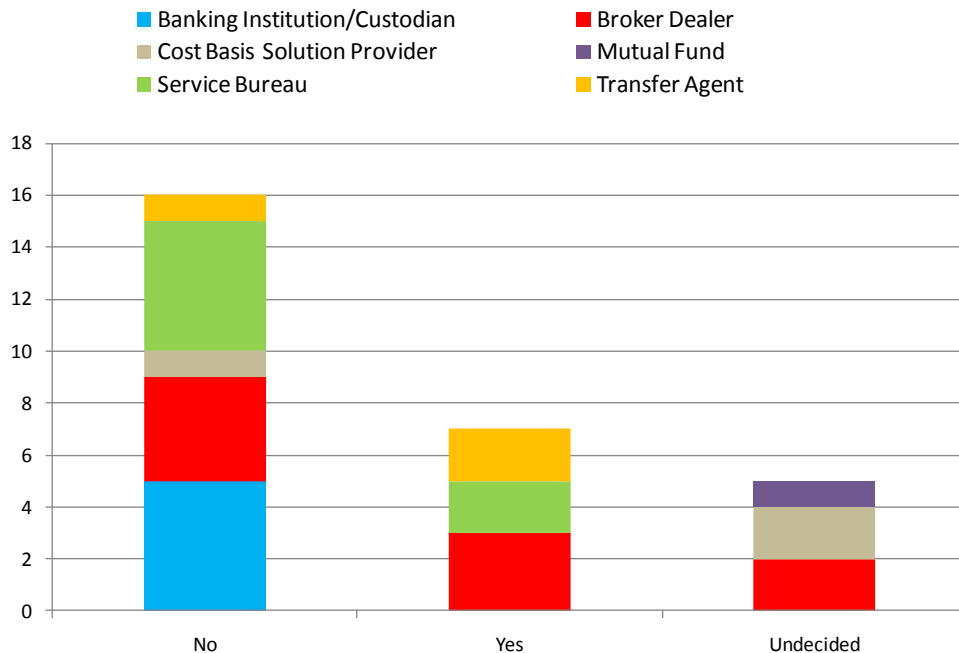
Figure 3: Cost Basis System Methodologies



3.3 Default to Average Cost Method

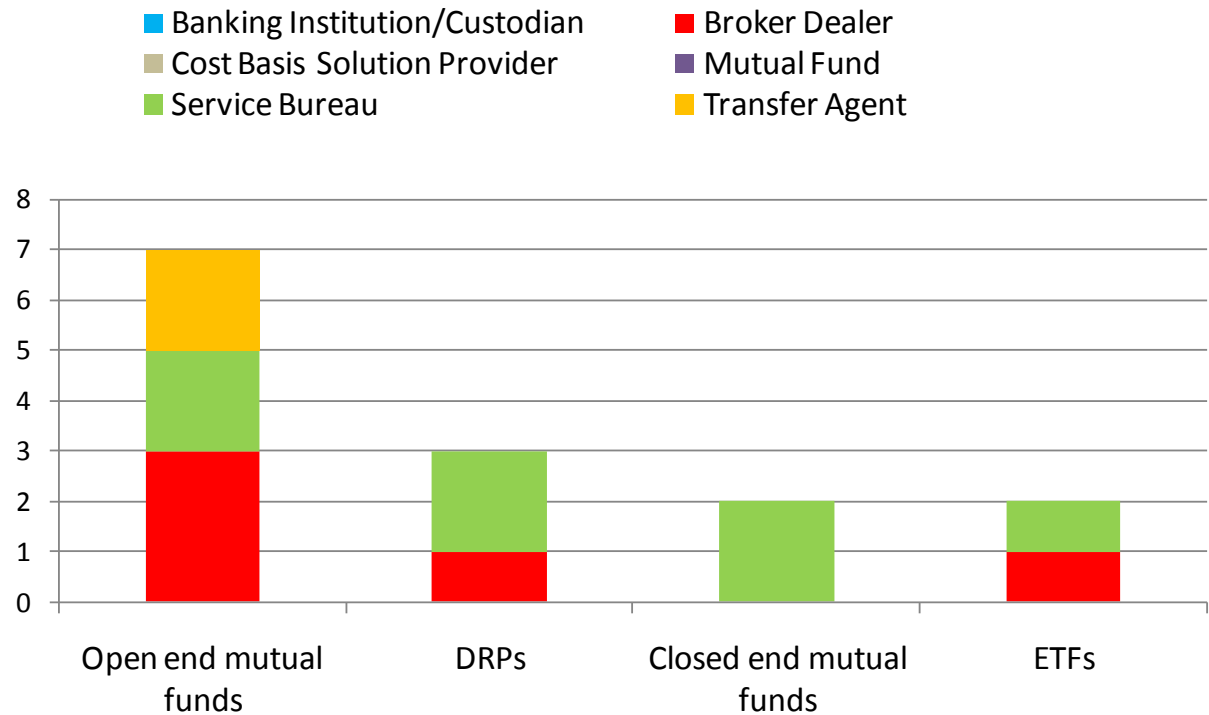
For average cost eligible securities, participants were asked if they were planning to default to this disposal method. 55% of respondents said no, 24% said yes and 16% were undecided (Figure 4).

Figure 4: Default Eligible Securities to Average Cost



If firms answered yes, they were additionally asked for which asset types (open end mutual funds, closed end mutual funds, ETFs and DRPs) would average cost be utilized (Figure 5)? All respondents selected open end mutual funds and less than 50% selected the remaining asset types including DRPs, closed end mutual funds and ETFs.

Figure 5: Use of Average Cost for Different Asset Types



3.4 Standing Instructions

Although there are no requirements in the Cost Basis regulations for brokers to offer standing instructions for client accounts, it is allowable and more than half of survey respondents support LIFO, Highest Cost and Lowest Cost as alternative cost basis disposal methods for client accounts (Table 1). Max Tax is least supported and Max Gain was an additional standing instruction supported by a Broker Dealer. Another respondent commented on developing new standing instructions based on client requests.

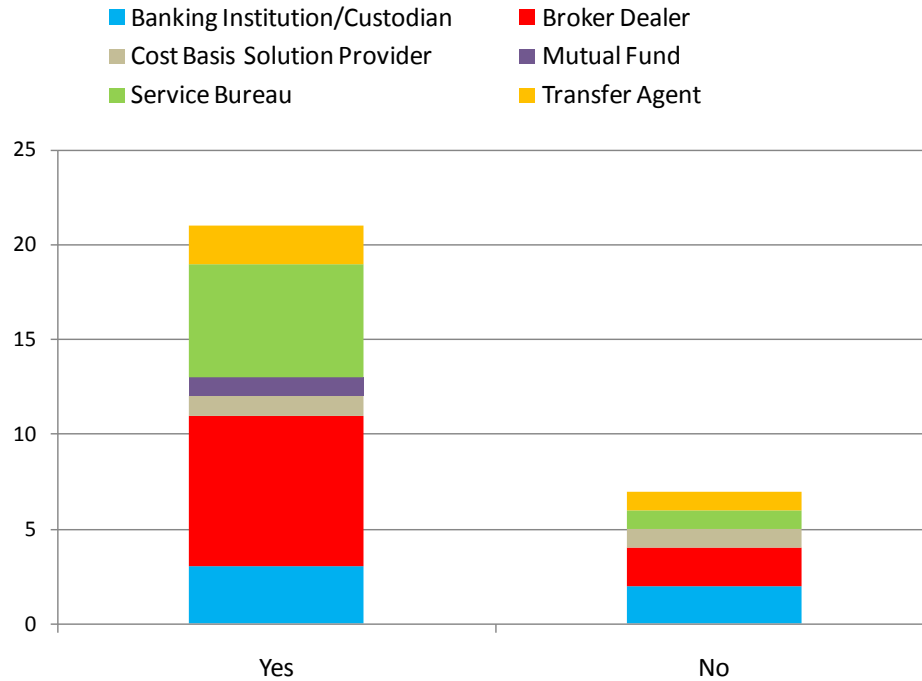
Table 1: Cost Basis System - Standing Instructions

	LIFO	Highest Cost	Lowest Cost	Min Tax	Highest Cost Long-Term	Lowest Cost Long-Term	Lowest Cost Short-Term	Highest Cost Short-Term	Max Tax
Banking Institution/ Custodian	3	3	1	1	2	1	1	1	1
Broker Dealer	9	8	7	5	4	4	4	3	2
Cost Basis Solution Provider	3	3	3	3	2	2	2	2	3
Mutual Fund	1	1	1	-	1	1	1	1	-
Service Bureau	5	5	4	3	3	3	3	3	2
Transfer Agent	1	1	1	1	-	-	-	-	-
Grand Total	21	21	17	13	12	11	11	10	8
Percent of Total	66%	66%	53%	41%	38%	34%	34%	31%	25%

3.5 DRP Functionality

Over 72% of firms offer a DRP today including 67% of Broker Dealers (Figure 6).

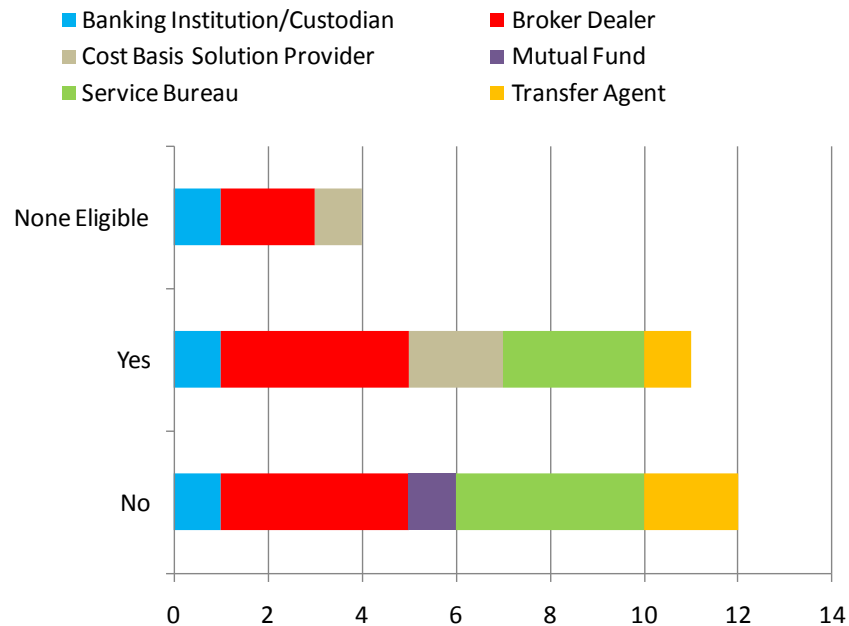
Figure 6: DRP Functionality



3.6 Single Account Election

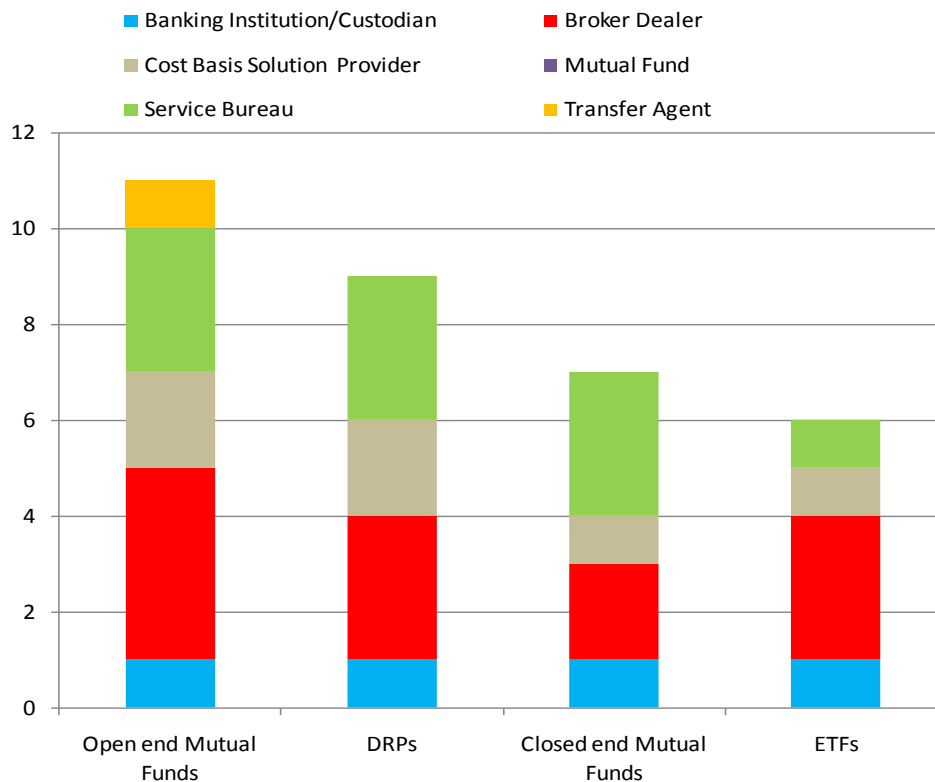
Subject to customer average price election, the question asked participants if they intended to utilize the Single Account election for eligible average cost assets. 39% of respondents said yes, 43% said no and 14% chose none eligible (Figure 7).

Figure 7: Single Account Average Cost Subject to Customer Authorization and Verification



Those that chose yes support open end mutual funds, 82% support DRPs and less than 63% support closed end mutual fund and ETFs (Figure 8).

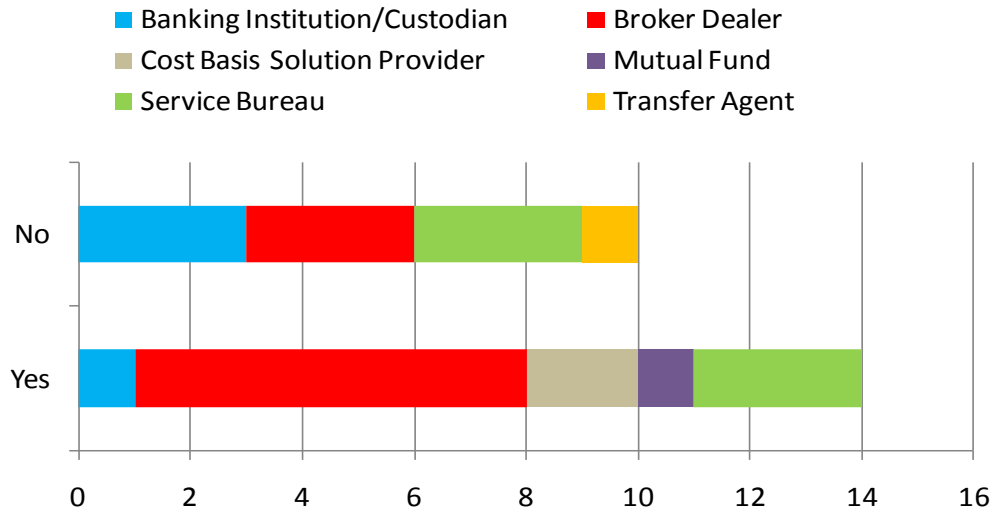
Figure 8: Single Account average cost election for eligible asset types



3.7 Differentiating ETFs from RICs

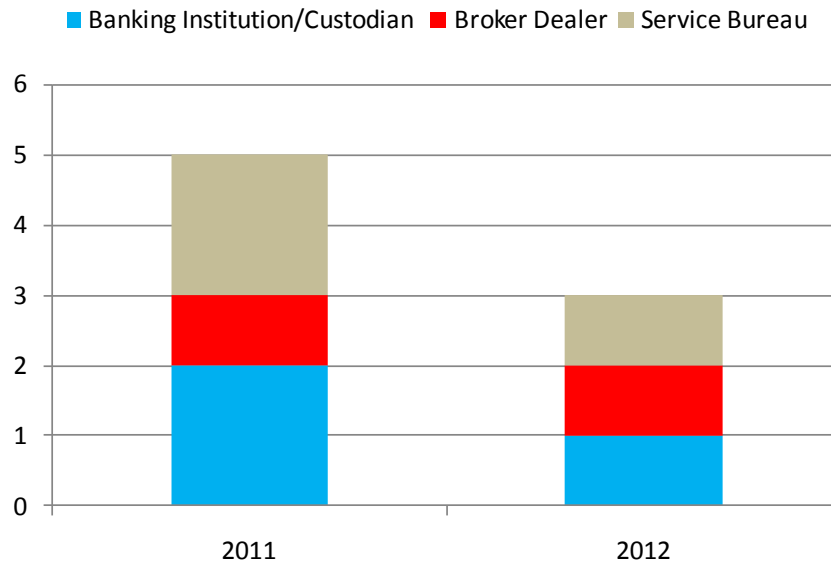
Survey participants were asked if their systems can distinguish ETFs from RICs since those ETFs that are RICs will be subject to reporting in 2012 while other ETFs may be subject to reporting in 2011 or 2013 depending on the final regulations and legal status of the security. Over 58% of respondents indicated they would differentiate ETFs from RICs, which included all Cost Basis Solution Providers, 70% of Broker Dealers and half of Service Bureau respondents (Figure 9).

Figure 9: Cost Basis Systems Differentiating ETFs from RICs



For those firms that are treating all ETFs the same, majority of them are taking a conservative position and will consider ETFs to be covered in 2011 (Figure 10).

Figure 10: ETFs Covered in 2011 or 2012



4 Cost Basis Reporting Functionality and Education

The new cost basis reporting requirements demand not only extensive systems changes but also immense data processing and reporting functionalities. The exhaustive list of changes also requires comprehensive client communications and documented procedures to ensure a successful implementation.

4.1 Cost Basis Modifications and Ability to Export Data

A useful functionality for end users is the ability to make cost basis changes and export cost basis data. 50% of survey respondents indicated changes would be allowed for non-covered assets (Table 2).

Table 2: Clients Ability to Modify Cost Basis Data

	Changes will be allowed for non-covered assets	No changes will be allowed	Other
Banking Institution/Custodian	1	1	1
Broker Dealer	8	-	2
Cost Basis Solution Provider	1	-	2
Mutual Fund	-	-	1
Service Bureau	2	-	4
Transfer Agent	1	-	2
Grand Total	13	1	12
Percent of Total	50%	4%	46%

Those that chose “Other” (respondents not selecting “Changes will be allowed for non-covered assets” or “No changes will be allowed”) provided the following comments:

As a service bureau, we provide interfaces that could be made available to anyone by the broker dealers who are our clients. We are not aware of any of our clients allowing their clients to update cost basis directly. As far as we know, brokers are limiting access to direct updates to back office and, in some cases, front office staff.

Updates are entitlement based where back office users can update cost basis at a deeper level than an advisor of end client

The changes will be allowed through the Admin Module of the Cost Basis Engine.

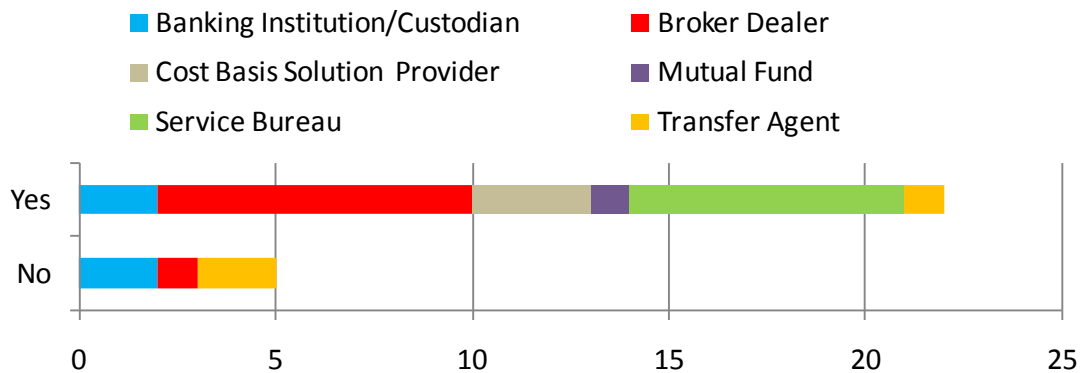
Changes for non-covered assets will be handled thru home office department, based off requests received from clients.

Corrections will be reviewed and underlying basis will be changed by the firm if appropriate. No on-line changes from customers will be accepted.

Changes to basis may be maintained by a representative of the transfer agent.

82% of firms will allow clients to export cost basis data including majority of Broker Dealers, Banking Institutions/Custodians, Service Bureaus and Cost Basis Solution Providers (Figure 11)

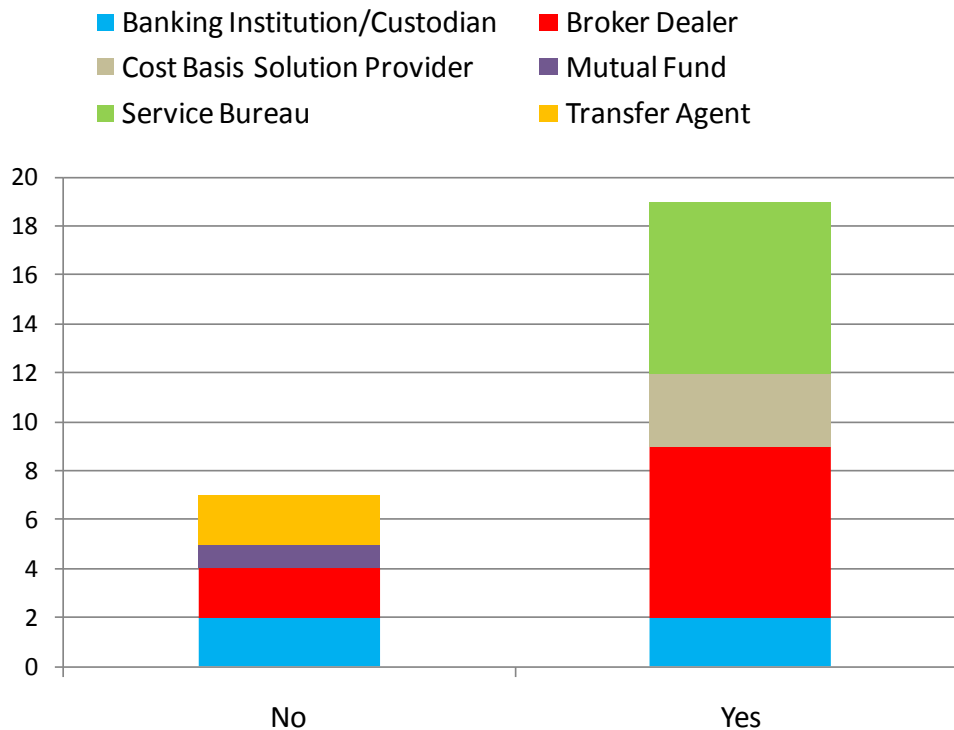
Figure 11: Ability to Export Cost Basis Data



4.2 Basis Reporting for Non-Reportable Accounts

Over 70% of firms provide basis reporting for non-reportable accounts (Figure 12).

Figure 12: Basis Reporting for Non-Reportable Accounts



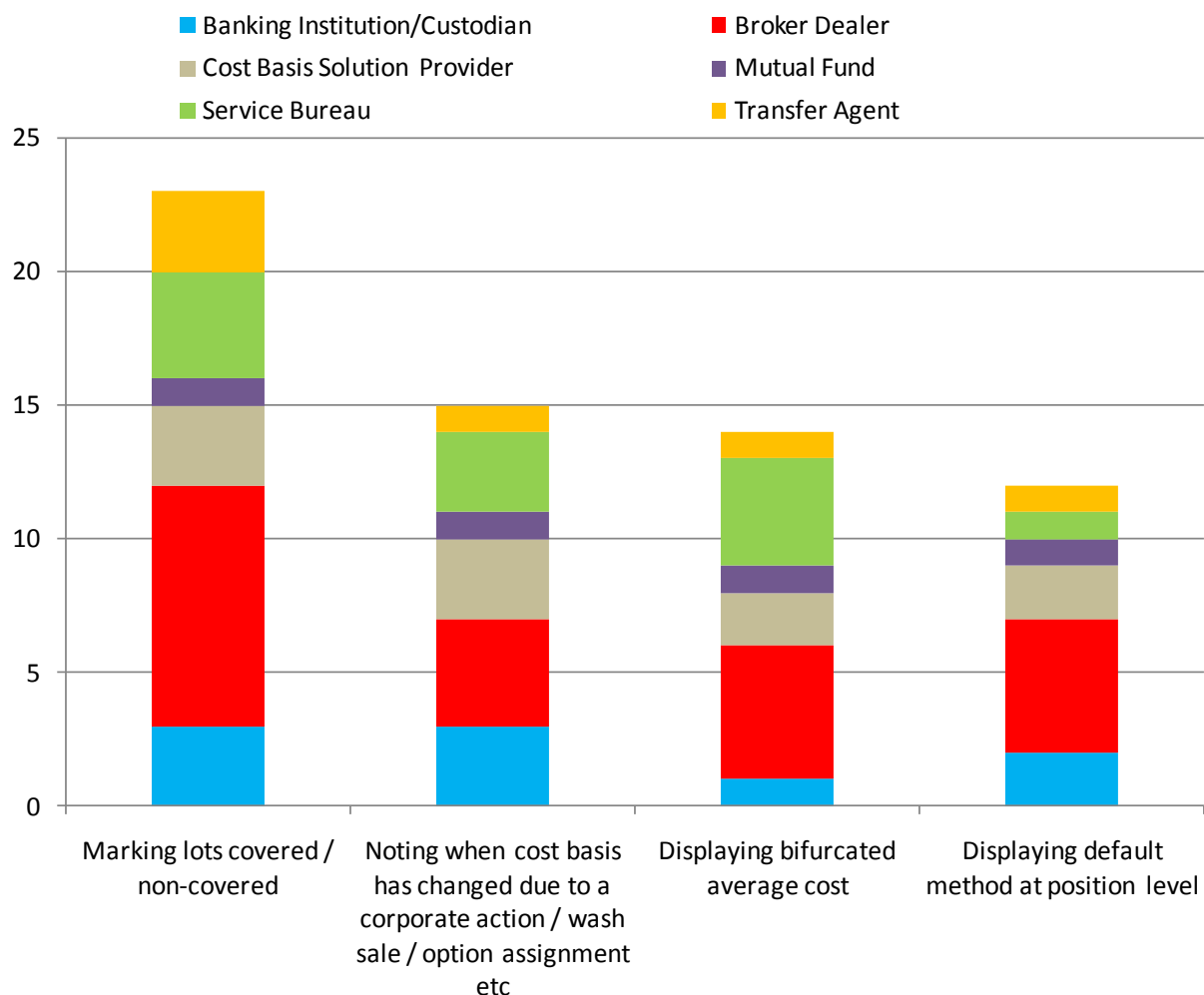
Those respondents, who don't provide basis reporting for non-reportable accounts, provided the following list as accounts they will be excluding:

- Qualified and Corporation Accounts
- Omni / Pooled Accounts
- Network level 3 accounts maintained by the Financial Intermediary and Retirement Accounts
- Any account type can be flagged to have cost basis processing turned on (or off)

4.3 Reporting Changes – Online and Statements

Participants were given four scenarios to determine which would cause reporting changes online and to statements (Figure 13).

Figure 13: Reporting Changes – Online and Statements

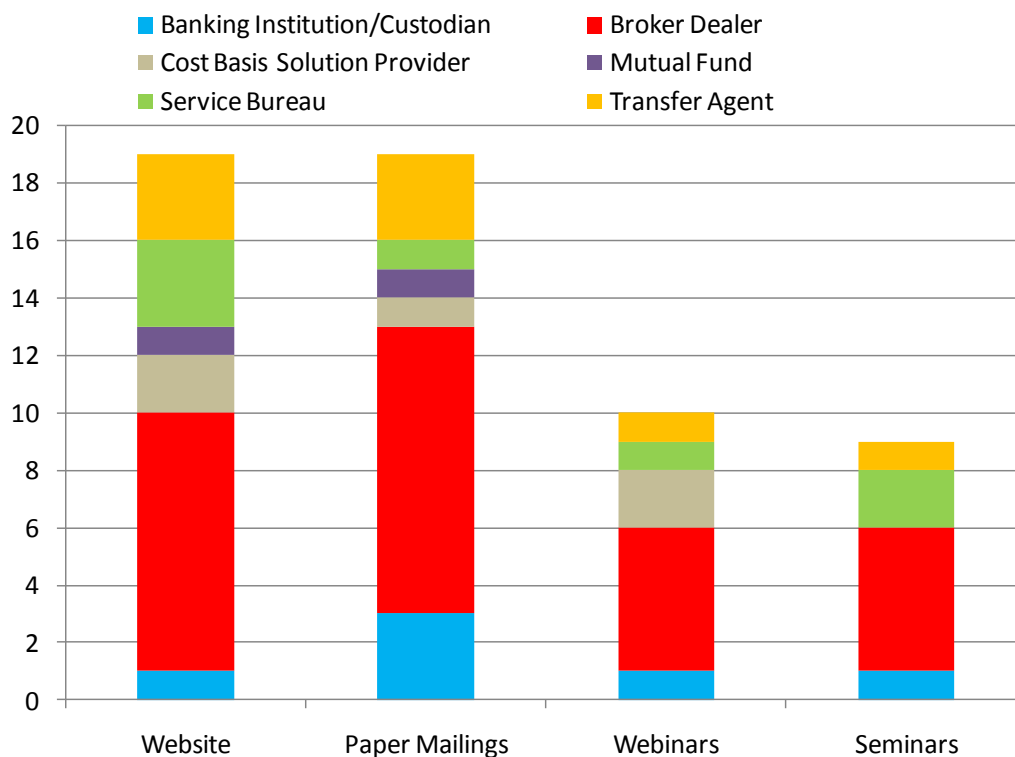


85% of respondents indicated Marking lots covered/non-covered as the most popular scenario. More than 50% selected "Noting when cost basis has changed due to a corporate action/wash sale/option assignment etc" and "Displaying bifurcated average cost."

4.4 Client and Internal Cost Basis Education – Communication Media and Training Topics

An enhanced communication plan to raise client and staff awareness can help avoid confusion and reduce help desk traffic. The survey determined 61% of respondents use website and paper mailings for customer education and Broker Dealers utilized paper mailings more than websites (Figure 14). For internal staff training, more than 70% of respondents indicated using website and seminars as the most popular mediums.

Figure 14: Customer Education - Medium Used



Survey participants were asked to identify topics challenging from a training perspective. Over 50% of respondents listed Gifts and Inheritance as challenging training topics (Table 3). Effective Date and Covered Securities were considered the least challenging training topics. Additional topics not listed below but identified as being more challenging include Wash Sales, Corporate Action Adjustments and Employee Plans.

Table 3: Cost Basis Education - Training Challenges

	Gifts	Inheritance	All topics treated equally	Transfers	Lot Selection	S-Corp Reporting	Basis Calculation	Covered Securities	Effective Date
Banking Institution/ Custodian	2	2	2	1	1	1	1	-	-
Broker Dealer	6	5	2	3	5	4	2	4	2
Cost Basis Solution Provider	1	1	3	1	1	1	1	1	1
Mutual Fund	-	-	1	-	-	-	-	-	-
Service Bureau	3	3	2	3	1	1	2	-	-
Transfer Agent	2	2	1	1	-	-	-	-	-
Grand Total	14	13	11	9	8	7	6	5	3
% of Total	54%	50%	42%	35%	31%	27%	23%	19%	12%

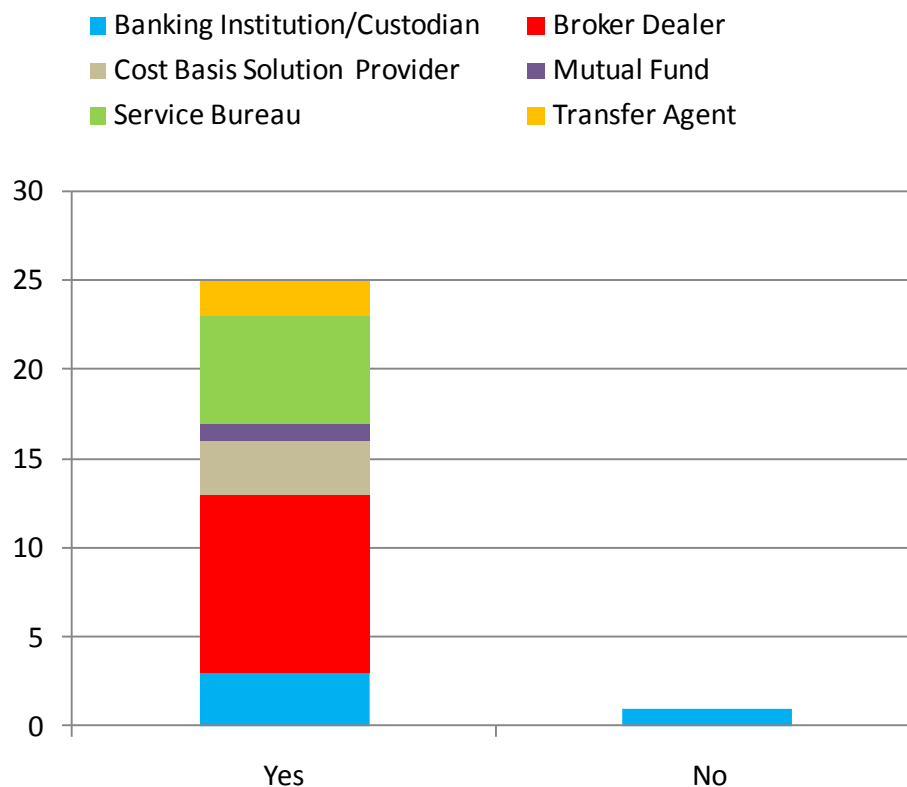
5 CBRS/Non- ACATS Participation

The Cost Basis Reporting Service (CBRS), an enhanced service provided by DTCC, solves the technology and reporting challenges faced by the industry in facilitating the secure passage of cost basis information when assets move among firms. CBRS creates a centralized and standardized communications hub allowing firms to eliminate potential inaccuracies associated with sending paper documents.

5.1 CBRS Adoption and Timelines

96% of survey respondents plan on participating in CBRS (Figure 15) out of which 77% would be ready in the December 2010 – March 2011 timeline.

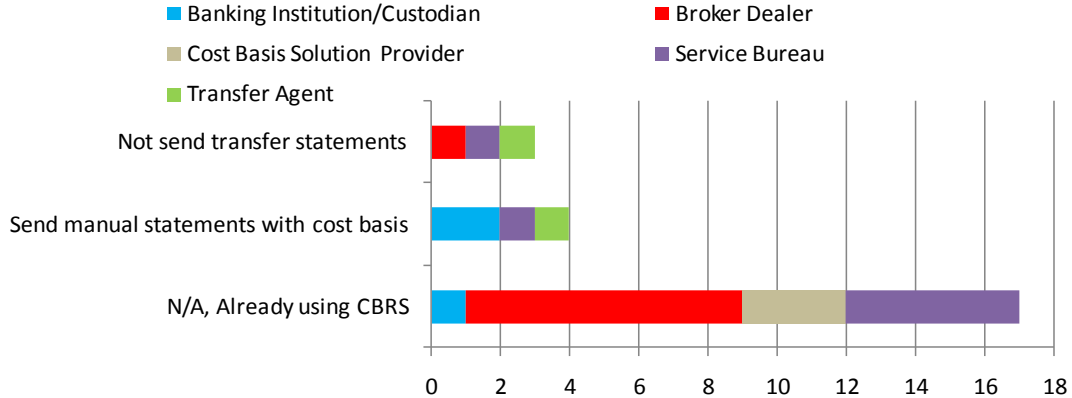
Figure 15: CBRS Participation



5.2 Firm Transition during CBRS Release

Before using CBRS for ACATS transfers, firms were questioned if they would in the interim, not send transfer statements, send manual statements with cost basis or are already using CBRS. Over 70% of respondents are already using CBRS, 17% will send manual statements with cost basis and 13% will not send transfer statements (Figure 16).

Figure 16: Firm Transition during CBRS Release



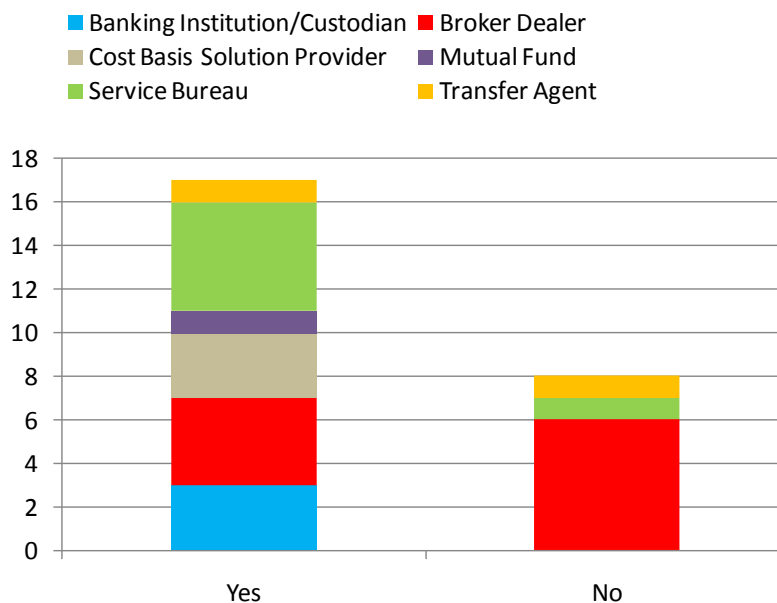
In order to assess readiness for non-ACATS transfers, firms were asked to indicate when (if not already) they would be ready to transfer basis for non-ACATS transfers and if in the interim, they will not send transfer statements or send manual statements with cost basis. 48% of respondents are currently using CBRS for non-ACATS transfers, 32% did not respond or are still determining when they will be ready.

In the interim, before using CBRS for non-ACATS transfers, 20% of respondents plan on sending manual statements while 32% will not send transfer statements.

5.3 Transfer Statement Transmittal and Follow-Ups

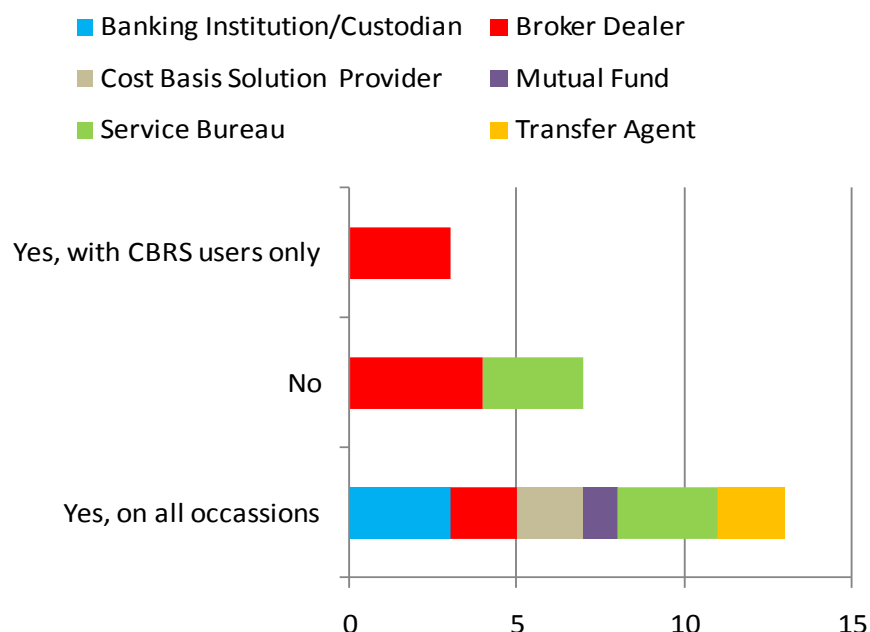
An additional question on the transfer topic focused on the process of sending a transfer statement to a firm in 2011 that is not participating in CBRS (Figure 17). 68% of respondents overall said they would send a transfer statement. 55% of Broker Dealer respondents will not send a transfer statement.

Figure 17: Send Transfer Statement to non-CBRS Participants in 2011



A scenario on firms following-up on occasions when basis is requested but not received within 15 days drew a mixed response. 57% of firms will follow-up on all occasions, 30% will not follow-up and the remaining 13% indicated following up with CBRS users only (Figure 18).

Figure 18: Following-up when basis not received within 15 days



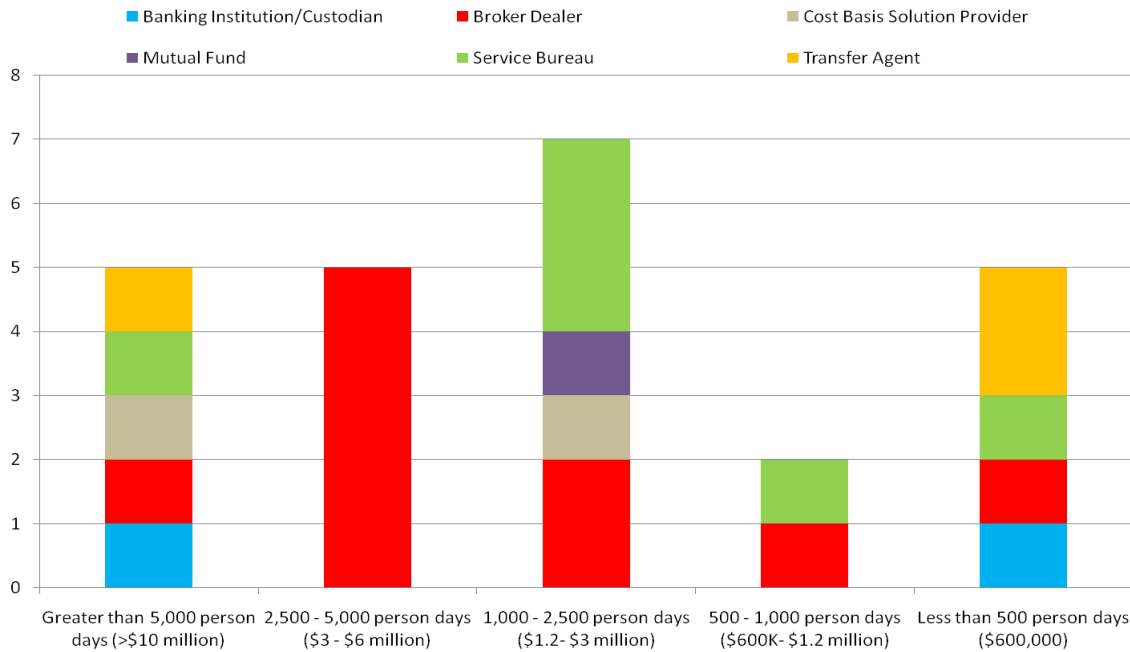
6 Implementing Cost Basis Changes – Resource Cost

In order to assess the cost of implementing the cost basis project, participants were asked separately to determine how much it cost their firms to get ready for 2011 and how much extra staff and resources will be required to prepare for 2012 and 2013. Using numbers gleaned from these questions allowed the calculation of the estimated total cost of this project to the industry.

6.1 2011 Preparation Costs

The question on assessing costs in the survey allowed participants to select from either the number of man days it took to implement the project or the total dollar amount spent to achieve regulatory compliance and satisfy client experience. Survey participants estimated total cost for 2011 compliance (25 participants) to be \$106 million. 48% of the respondents included Broker Dealer, Banking Institutions and Custodians totaling their cost to be \$58 million. It cost Service Bureau participants (6) \$21 million while the cost basis solution providers (2) spent \$13 million (Figure 19).

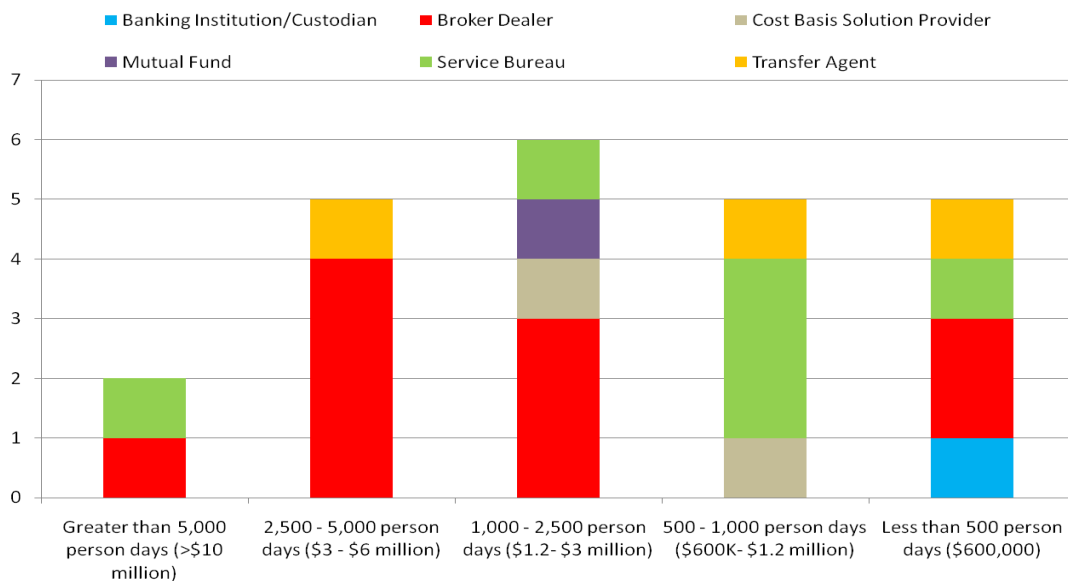
Figure 19: 2011 Preparation Costs



6.2 2012 and 2013 Preparation Costs

The same criteria were used to determine how much it would cost participants to be in compliance for 2012 and 2013. The total cost estimated for 2012, 2013 compliance by 25 participants was \$77 million, out of which Broker Dealer, Banking Institution and Custodian cost was pegged at \$45 million, Service Bureaus (6) projected spending \$17 million and Cost Basis Solution Providers (2) estimated \$4 million (Figure 20).

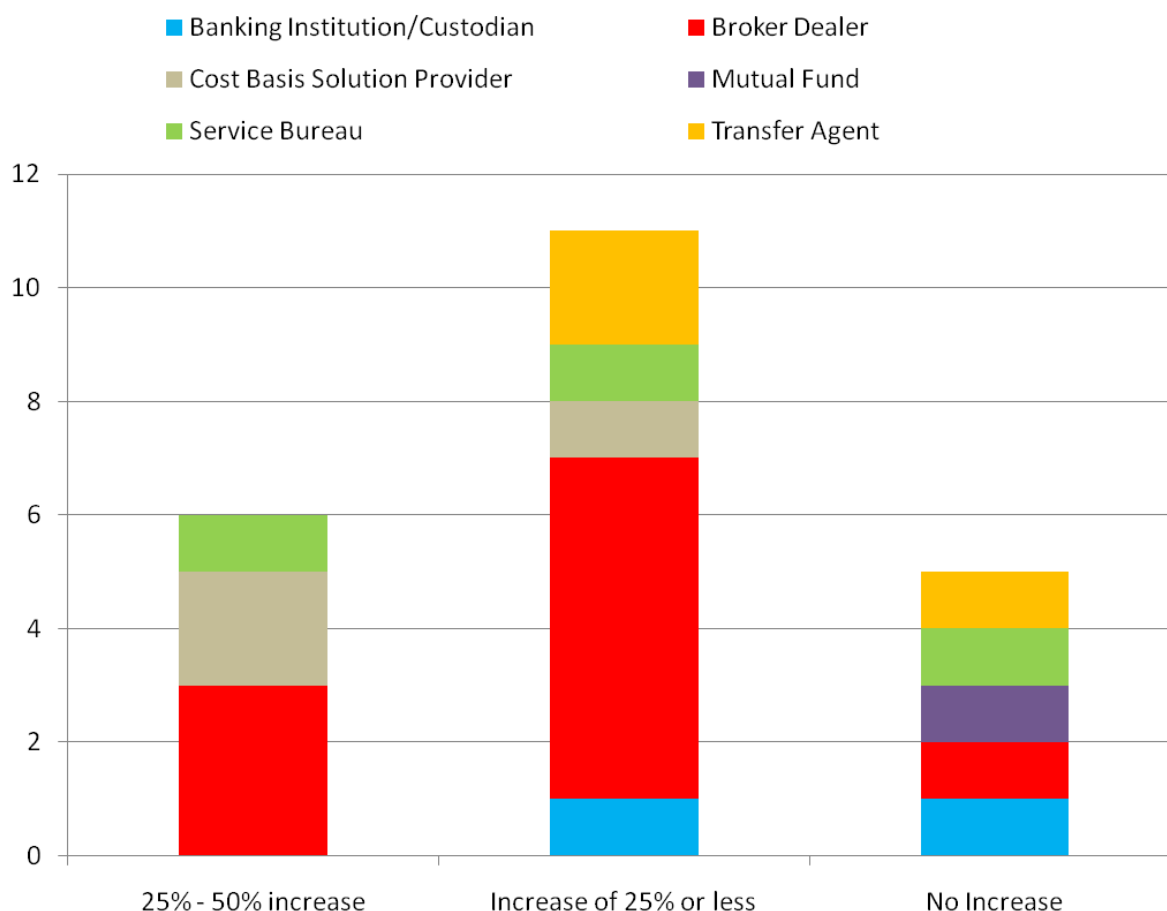
Figure 20: 2012, 2013 Estimated Costs



6.3 Staffing Needs

To determine the change in a firm's operational staffing, participants were asked to determine the augment in staffing needed to ensure cost basis integrity for 2011 and whether they foresee additional growth for 2012 and 2013. 65% of participants have seen an increase in operational staffing (Figure 21). One service bureau participant indicated the group supporting cost basis accounting and tax reporting products had nearly tripled in size. 19% of participants have seen no increase in operational staffing.

Figure 21: 2011, 2012 and 2013 Operational Staffing Increase



6.4 Estimated Industry Costs – 2011-2013

In determining an estimate for the total impact of the Cost Basis Reporting regulations on the industry, the following categories of firms were considered in the overall assessment: Broker Dealers (Clearing, Discount and Full Brokerage), Custodians, Transfer Agents, Service Bureaus and Solution Providers.

In calculating the total cost estimate, first we assessed average values for the amount already spent (2011 preparation) and the amount anticipated to be spent (2012-2013) based on responses from 25 firms participating in the FIF Survey. The costs were based on the number of person hours multiplied by the daily rate of \$1,200.

Table 4: Estimated Industry Costs per Firm Category

Firm Categories	2011 Preparation	2012-2013 Preparation
Clearing Firms	\$6,000,000	\$5,000,000
Discount Firms	\$8,000,000	\$8,000,000
Full Service – Large	\$4,000,000	\$4,000,000
Full Service – Second Tier	\$900,000	\$600,000
Transfer Agents	\$10,000,000	\$6,000,000
Service Bureaus	\$3,466,667	\$2,866,667
Custodians	\$600,000	\$600,000
Solution Providers	\$6,500,000	\$2,100,000

To arrive at the total cost, these averages were extrapolated to a total of 135 firms within each category that we considered to be of relative comparability. In our analysis we were able to identify approximately an additional 850 firms in the industry that would be affected by cost basis reporting legislation but due to insufficient comparable data, we cannot confidently assess a value to these firms.

While we have made an estimate that covers roughly 14% of the firms identified, we estimate that those included represent the largest firms in the industry and those that would bear the highest costs. For the 850 firms identified but not included in the estimate, in our opinion, it would be reasonable to assume the total impact could be much higher, given the volume of firms omitted from the analysis below.

What follows is the valuation for our total cost estimate, broken down by category.

Table 5: Estimated Industry Costs

Firm Categories	# of Firms in Estimate	2011 Preparation	2012-2013 Preparation	Total
Clearing Firms	8	\$48,000,000	\$40,000,000	\$88,000,000
Discount Firms	4	\$32,000,000	\$32,000,000	\$64,000,000
Full Service – Large	8	\$32,000,000	\$32,000,000	\$64,000,000
Full Service – Second Tier	84	\$75,600,000	\$50,400,000	\$126,000,000
Full Service – Total	92	\$107,600,000	\$82,400,000	\$190,000,000
Total Broker Dealers	104	\$187,600,000	\$154,400,000	\$342,000,000
Transfer Agents	4	\$40,000,000	\$24,000,000	\$64,000,000
Service Bureaus	7	\$24,733,333	\$21,733,333	\$46,466,667
Custodians	13	\$7,800,000	\$7,800,000	\$15,600,000
Solution Providers	7	\$45,500,000	\$14,700,000	\$60,200,000
Net Total	135	\$305,633,333	\$222,633,333	\$528,266,666

In calculating the Net Total estimate of \$528 million, we added the estimates from each category above and subtracted any overlapped firms. Our estimate is based on final extrapolation to approximately 135 of the largest firms in the industry. This estimate is almost 30% greater than the Options Symbology Initiative (OSI) projected industry cost of \$373 million in the [Options Symbology Initiative \(OSI\) Post Mortem and Comparison to Cost Basis](#) industry survey report.

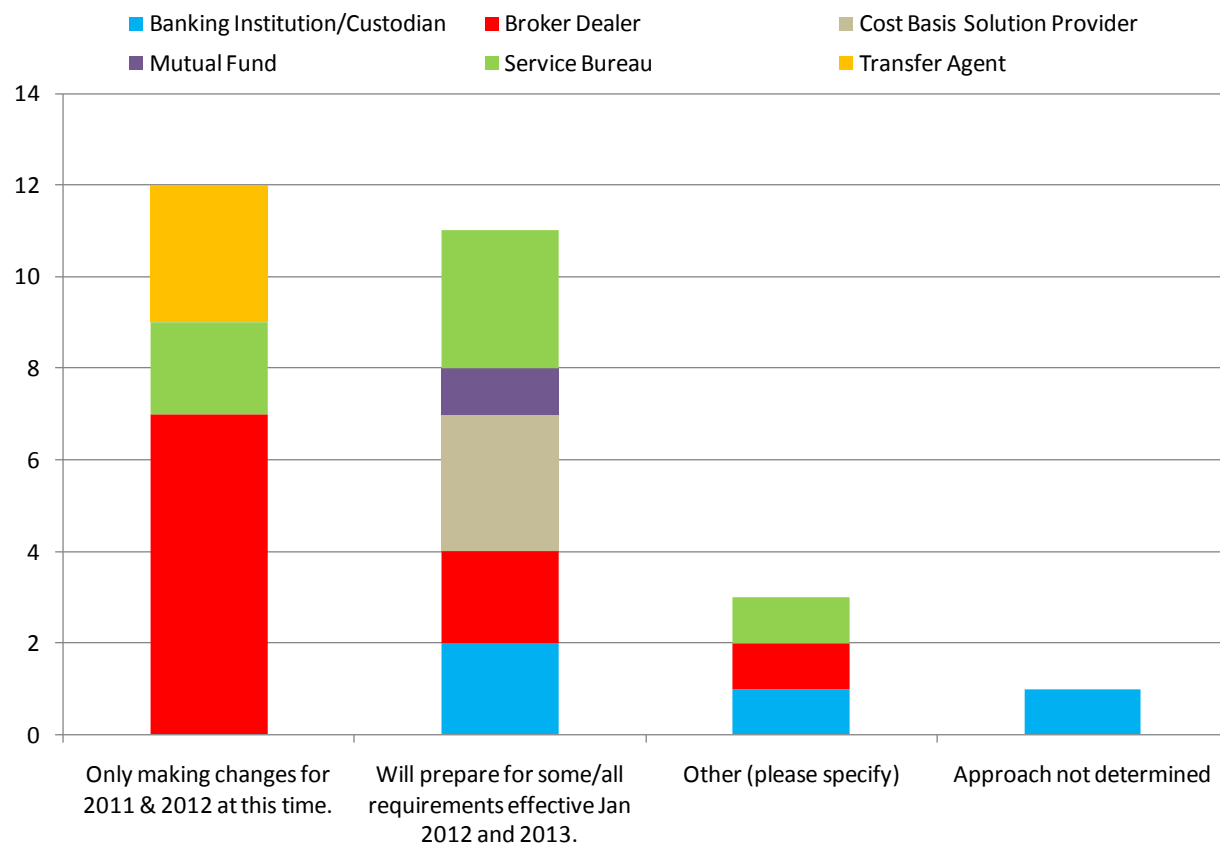
7 Getting Ready for 2012 and 2013

With firms having done the bulk of the work to prepare for 2011, most of the participants are already focusing on getting ready for 2012 and 2013. Survey questions were tailored to evaluate how firms would prepare to meet the January 2012 deadline given the phased implementation schedule for Mutual Funds and DRPs and how soon are final regulations required to plan for 2013.

7.1 Anticipated Changes for Mutual Funds & DRPs

As shown in Figure 22, 44% of respondents are currently preparing for 2011 and 2012 changes and 41% of respondents are considering some/all changes for 2012-2013.

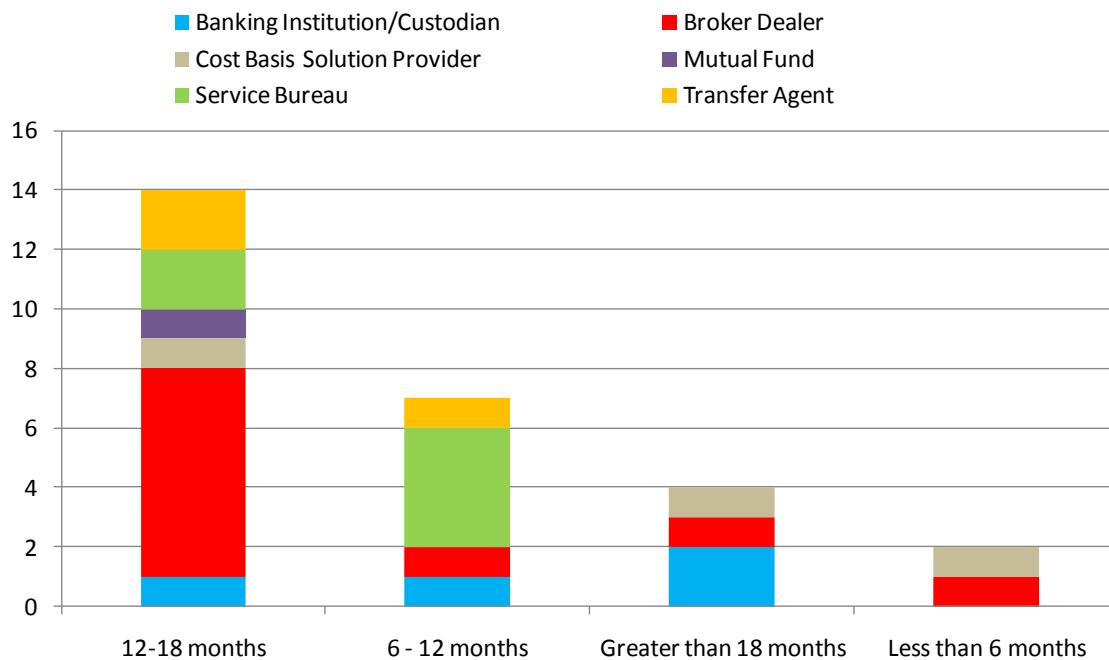
Figure 22: Getting Ready for 2012 - Mutual Funds and DRPs



7.2 IRS Guidance for 2013 Preparation

75% of respondents feel final regulations are required at the minimum 6-18 months in advance to prepare for 2013. 14% of respondents require more than 18 months to get ready for 2013 (Figure 23).

Figure 23: 2013 Preparation - Final Regulations Timeline



7.3 Additional Implementation Thoughts

The final question of the survey polled participants for their thoughts on ways to reduce the workload or facilitate the implementation for their firm or the industry in order to be compliant in 2012.

Implementing Industry projects such as Options Symbology Initiative (OSI) in the past and now Cost Basis has raised a common theme of fewer resources, not enough subject matter experts, additional testing time required, establishing two way channels with the regulators and obtaining final regulations/guidance on time¹. Following are the comments by survey respondents when asked to express their thoughts:

- The greater concern is 1/1/2013, when fixed income, options and "other" securities become reportable. The IRS could dramatically improve the implementation process by giving clear guidance on "other" securities (if applicable) and clarifying remaining issues around fixed income and options at earliest possible time.
- The industry needs to be consistent.

¹ See [FIF OSI Post-Mortem and Comparison to Cost Basis Survey Report](#)

- Regulations should be finalized and published much earlier - at least 6 months in advance of due dates.
- We are hoping regulatory guidelines and/or changes that will impact meeting requirements for 2012 will be published as early as possible.
- The more firms that participate in CBRS the better.

8 Conclusion

The January 2011 FIF Cost Basis Survey III on the multi-year IRS Cost Basis initiative covered a range of areas that firms needed to address for compliance in 2011, extended to sectors still being developed to get ready for 2012 and 2013 and focused on the accompanying resource requirements and projected costs for this initiative.

Equities support is offered by all Banking Institutions/Custodians, Broker Dealers, Cost Basis Solution Providers and Service Bureau survey respondents. Mutual Funds are supported by a majority and Fixed Income and Options are supported on a limited basis by all Service Bureaus and the bulk of Broker Dealer respondents. Standing instructions for client accounts such as LIFO, Highest Cost and Lowest Cost, are backed by half of survey respondents. More than two-thirds of respondents including broker dealers offer a DRP today. From 2011-2013, different categories of ETFs will fall in compliance and more than half of survey respondents make this distinction today while those that don't will consider them covered in 2011. Cost basis changes are supported by more than half of survey respondents and almost all will allow clients to export cost basis data.

Changes to existing products are the norm when implementing any project. When survey participants were given four scenarios to determine which would cause reporting changes online and to statements, nearly all of the respondents indicated Marking lots covered/non-covered as the most popular scenario and more than half selected "Noting when cost basis has changed due to a corporate action/wash sale/option assignment etc" and "Displaying bifurcated average cost."

Educating clients and internal staff is essential to raise awareness and avoid confusion. The survey determined more than half of respondents were using website and paper mailings for customer education. For internal staff training, nearly all respondents indicated using website and seminars as the most popular mediums. Topics that proved to be challenging from a training perspective included Gifts and Inheritance as the most demanding and Effective Date and Covered Securities to be the least challenging. Other challenging topics included Wash Sales and Corporate Action Adjustments.

Nearly all survey respondents plan on participating in CBRS out of which more than half indicated readiness in the December 2010 – March 2011 timeline. Before using CBRS for ACATS transfers, a majority of firms will not send transfer statements since those firms are already using CBRS. Less than half of the respondents are also using CBRS for non-ACATS transfers.

Firms are eagerly anticipating IRS guidance on issues pertaining to 2012 and 2013 compliance and hope to receive them at least six months in advance. The Cost Basis Initiative has seen an increase in

operational staffing in more than half of survey respondents. 2011 preparation costs have been pegged at more than \$100 million by participants and 2012-2013 costs are expected to be more than \$70 million. FIF projects a price tag of more than half a billion dollars on some of the largest firms in the industry.

9 Appendix 1: FIF Cost Basis Survey

The [Financial Information Forum](#) (FIF) addresses the issues that impact the financial information industry, from real-time decision support through securities processing. FIF provides a collaborative environment for subscribers to benefit from technology, regulatory, and market innovations. Through its [FIF Cost Basis Working Group](#), FIF has assisted its members in addressing implementation issues associated with the new cost basis requirements, as laid out in the Economic Recovery Plan (Section 403 of the Act) passed on October 3, 2008, through surveys and meetings aimed at information sharing and issue resolution.

As part of its implementation tracking efforts, FIF is conducting its third cost basis survey. This survey will focus on progress to date with cost basis requirements as we look to 2011 development and testing efforts.

Individual responses will not be attributed. Firm names will only be listed as survey participants unless they choose to remain anonymous. The final report of this third survey will be available to all FIF members and survey respondents.

*** 1. Please enter your contact details. The following information will be used for tracking purposes only.**

Name:	<input type="text"/>
Organization:	<input type="text"/>
Title:	<input type="text"/>
Email Address:	<input type="text"/>
Phone Number:	<input type="text"/>

*** 2. Please indicate your firm type:**

- ☐ Broker Dealer
- ☐ Transfer Agent
- ☐ Service Bureau
- ☐ Banking Institution/Custodian
- ☐ Cost Basis Solution Provider
- ☐ Mutual Fund

*** 3. May we list your firm as a participant in the survey? *Note: Individual responses will not be attributed. All feedback will remain anonymous.***

- ☐ Yes
- ☐ No

4. What security types does your cost basis system support?

- | | |
|-----------------------------------|---------------------------------------|
| <input type="checkbox"/> Equities | <input type="checkbox"/> Fixed Income |
| <input type="checkbox"/> Options | <input type="checkbox"/> Mutual Funds |

5. What methodologies does your cost basis system support?

- | | |
|---------------------------------------|-------------------------------|
| <input type="checkbox"/> Average Cost | <input type="checkbox"/> FIFO |
|---------------------------------------|-------------------------------|

6. Which types of standing instructions does your cost basis system support?

- | | | |
|----------------------------------|--|---|
| <input type="checkbox"/> FIFO | <input type="checkbox"/> Highest Cost | <input type="checkbox"/> Lowest Cost Long-Term |
| <input type="checkbox"/> LIFO | <input type="checkbox"/> Highest Cost Long-Term | <input type="checkbox"/> Lowest Cost Short-Term |
| <input type="checkbox"/> Max Tax | <input type="checkbox"/> Highest Cost Short-Term | |
| <input type="checkbox"/> Min Tax | <input type="checkbox"/> Lowest Cost | |

Other standing instructions? (Please specify)

7. Is your firm planning to default to average cost for any securities that are eligible for this disposal method?

- ☐ Yes ☐ No ☐ Undecided

8. If yes, for which asset types do you plan on utilizing an average cost default?

- | | |
|--|-------------------------------|
| <input type="checkbox"/> Open end mutual funds | <input type="checkbox"/> ETFs |
| <input type="checkbox"/> Closed end mutual funds | <input type="checkbox"/> DRPs |

9. Does your firm offer a DRP?

- ☐ Yes ☐ No

10. Does your firm intend to utilize Single Account average cost for any assets eligible for average cost subject to customer authorization and verification?

- ☐ Yes ☐ No ☐ None Eligible

11. If yes, for which asset types does your firm plan to utilize the single account election?

- | | |
|--|-------------------------------|
| <input type="checkbox"/> Open end mutual funds | <input type="checkbox"/> ETFs |
| <input type="checkbox"/> Closed end mutual funds | <input type="checkbox"/> DRPs |

12. Which of the following scenarios does your firm anticipate reporting changes on statements/online? Please check all that apply.

- ☐ Marking lots covered / non-covered
- ☐ Displaying bifurcated average cost
- ☐ Displaying default method at position level
- ☐ Noting when cost basis has changed due to a corporate action / wash sale / option assignment etc

13. Does your firm's system allow clients to make cost basis changes?

- ☐ No changes will be allowed.
- ☐ Changes will be allowed for non-covered assets.
- ☐ Other. Please describe how and when changes will be allowed.

14. Will your firm allow clients to export cost basis data?

- ☐ Yes ☐ No

15. What media is your firm using for customer and internal education? (Check all that apply)

	Customer	Internal
Website	<input type="checkbox"/>	<input type="checkbox"/>
Seminars	<input type="checkbox"/>	<input type="checkbox"/>
Webinars	<input type="checkbox"/>	<input type="checkbox"/>
Paper Mailings	<input type="checkbox"/>	<input type="checkbox"/>

**16. Are any of the topics listed below more challenging from a training perspective?
(Please include additional topics not identified below)**

- | | |
|---|---|
| <input type="checkbox"/> Gifts | <input type="checkbox"/> Basis Calculation |
| <input type="checkbox"/> Inheritance | <input type="checkbox"/> Lot Selection |
| <input type="checkbox"/> S-Corp Reporting | <input type="checkbox"/> Transfers |
| <input type="checkbox"/> Effective Date | <input type="checkbox"/> All topics treated equally |
| <input type="checkbox"/> Covered Securities | |
| <input type="checkbox"/> Other (Please specify) | |

17. Given the phased implementation schedule for Mutual Funds and DRPs, what will your firm prepare for between now and January 1, 2012?

- ☐ Will prepare for all requirements effective Jan 2012 and 2013.
- ☐ Will prepare for some changes beyond Jan 2012.
- ☐ Only making changes for 2011 & 2012 at this time.
- ☐ Approach not determined
- ☐ Other (please specify)

18. In order for your firm to adequately prepare for securities that become covered in 2013, how far in advance do you think your firm requires final regulations?

- ☐ Less than 6 months
- ☐ 6 - 12 months
- ☐ 12-18 months
- ☐ Greater than 18 months

19. What is your assessment of person days already spent to implement the changes (regulatory and client experience) required for January 2011? (Note: If unsure about days, choose dollar amount based on \$1,200 / person day)

- ☐ Less than 500 person days (\$600,000)
- ☐ 500 - 1,000 person days (\$600K- \$1.2 million)
- ☐ 1,000 - 2,500 person days (\$1.2- \$3 million)
- ☐ Additional Comments:
- ☐ 2,500 - 5,000 person days (\$3 - \$6 million)
- ☐ Greater than 5,000 person days (>\$10 million)

20. In man days, what are your current estimates of the implementation workload (regulatory and client experience) to meet the 1/1/2012 and 1/1/2013 deadline? (Note: If unsure about days, choose dollar amount based on \$1,200 / person day)

- ☐ Less than 500 person days (\$600,000) ☐ 2,500 - 5,000 person days (\$3 - \$6 million)
- ☐ 500 - 1,000 person days (\$600K- \$1.2 million) ☐ Greater than 5,000 person days (>\$10 million)
- ☐ 1,000 - 2,500 person days (\$1.2- \$3 million)
- ☐ Additional Comments:

21. How do you think your firm's operational staffing needs have changed in order to ensure cost basis integrity for 2011 and do you anticipate additional needs for 2012, 2013?

- ☐ No Increase ☐ Increase of 25% or less ☐ 25% - 50% increase
- ☐ Other. Please identify below.

CBRS/Transfer Statement Readiness

22. Is your firm planning to participate in CBRS?

- ☐ Yes
- ☐ No

23. If yes, when will your firm be ready to transfer basis for ACAT Transfers? If your firm is already using CBRS, please enter when your firm went live.

	Month	Year
Specify Month and Year	<input type="text"/>	<input type="text"/>

Other (please specify)

24. In the interim, before using CBRS for ACATS transfers, will your firm:

- ☐ Not send transfer statements
- ☐ Send manual statements with cost basis
- ☐ N/A, Already using CBRS

25. When will your firm be ready to transfer basis for non-ACAT Transfers? If your firm is already using CBRS for non-ACAT transfers, please enter when your firm went live.

	Month	Year
Specify Month and Year	<input type="text"/>	<input type="text"/>
Other (please specify)		
<input type="text"/>		

26. In the interim, before using CBRS for non-ACATS transfers, will your firm:

- ☐ Not send transfer statements
- ☐ Send manual statements with cost basis
- ☐ N/A, already using CBRS

27. Is your firm going to send a transfer statement in 2011 to a firm that is not participating in CBRS?

- ☐ Yes
- ☐ No

28. Will your firm follow-up on those occasions when your firm requests basis but it is not received within 15 days?

- ☐ Yes, on all occasions
- ☐ Yes, with CBRS users only
- ☐ No

Additional Comments:

DRP/RIC and Additional Topics

29. Is your firm differentiating between ETFs that are RICs and those that are not?

- ☐ Yes
- ☐ No

30. If no (i.e., your firm is treating all ETFs the same), will your firm consider ETFs to be covered in 2011 or 2012?

- ☐ 2011
- ☐ 2012

31. Does your firm perform basis reporting for non-reportable accounts?

- ☐ Yes
- ☐ No

32. If no, what type of accounts are excluded (please specify)

A rectangular text input box with a light gray background and a thin black border. On the right side, there are two small, vertically stacked arrow buttons (up and down) for scrolling.

33. Do you have any suggestions or thoughts on ways to reduce the workload or facilitate the implementation for your firm or for the industry in order to be ready for 1/1/2012?

A rectangular text input box with a light gray background and a thin black border. On the right side, there are two small, vertically stacked arrow buttons (up and down) for scrolling.