

# FINANCIAL INFORMATION FORUM

5 Hanover Square  
New York, New York 10004

212-422-8568

November 13, 2009

Stephen Schaeffer  
Office of Associate Chief Counsel (Procedure & Administration)  
Internal Revenue Service  
P.O. Box 7604, Ben Franklin Station,  
Washington, DC 20044

Re: Cost Basis Requirements – January 2011 Implementation Timing

Dear Mr. Schaeffer,

The Financial Information Forum (FIF)<sup>1</sup> would like to take this opportunity to raise concerns regarding the current implementation date in light of the lack of final regulations at this point in the process. With proposed regulations not yet available for comment, the FIF Cost Basis WG is extremely concerned about the adequacy of the next thirteen months to comprehensively analyze, develop, test, deploy and communicate the significant changes required to meet the January 1, 2011 cost basis requirements. We respectfully request a meeting with the IRS and relevant stakeholders to discuss these concerns in more detail.

The FIF Cost Basis Working Group includes broker-dealers, service bureaus and other vendors responsible for implementing the new cost basis requirements added in section 403 of the Emergency Economic Stabilization Act of 2008. Since the approval of the cost basis legislation in October 2008, the FIF Cost Basis Working Group has been active in identifying open implementation issues and concerns. Activities to date include:

- February 27, 2009: Submission of [FIF Comment Letter I](#) outlining open issues that need to be addressed as part of the implementation process.
- April 7, 2009: Submission of [FIF Comment Letter II](#) specifically addressing questions in [Notice 2009-17](#).
- September 8, 2009: Publication of [FIF Cost Basis Survey Report](#) based on 38 firm responses. The objectives of the survey were to:
  - Identify areas where IRS guidance is critical
  - Estimate implementation effort and on-going support of new requirements
  - Understand the biggest obstacles for firms to comply
  - Highlight areas for improved efficiency at the industry level
- September 10, 2009: Held FIF Cost Basis Roundtable to discuss survey results and update the FIF Cost Basis Issues List

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<sup>1</sup> FIF ([www.fif.com](http://www.fif.com)) was formed in 1996 to provide a centralized source of information on the implementation issues that impact the financial technology industry across the order lifecycle. Our participants include trading and back office service bureaus, broker-dealers, market data vendors and exchanges. Through topic-oriented working groups, FIF participants focus on critical issues and productive solutions to technology developments, regulatory initiatives, and other industry changes. The FIF Cost Basis WG includes 225 members from over 45 broker dealer, service bureau and vendor firms.

Based on the survey results and subsequent meetings of the FIF Cost Basis Working Group, we would like to share the following observations on current industry implementation efforts including our understanding of the critical dependencies in the development and rollout of the new cost basis requirements.

**Many Areas of Preparation Impacted by Lack of Final Regulation**

The industry is working diligently to meet those requirements that can reasonably be anticipated. Data from the FIF Survey Report indicates that the vast majority (96%) of broker dealers and service bureaus are actively engaged in preparations. Respondents indicated that they were assembling project teams and where possible beginning development projects to meet the new functional requirements. Unfortunately, a number of initiatives are on hold due to the lack of final regulations. The following table indicates the responses from survey respondents on areas of preparation most impacted by the lack of final regulations.

<b>Areas of Preparation Impacted by Lack of Final Regulations</b>	<b>Broker Dealer</b>	<b>Service Bureau</b>
Methodology Selection and Frequency of Changes	74%	83%
Reporting Dates for Non-Defined Categories	74%	67%
Issuer communications	74%	83%
1099-B design	68%	67%
DRIP Programs	68%	83%
Account Transfers	68%	100%
Wash Sales	58%	17%
Definition of Identical Securities	53%	33%
Mutual Funds	47%	50%
Option Transactions	42%	83%
Short Sales	32%	83%
<b>Total # of Firms in Survey</b>	<b>19</b>	<b>6</b>

In several congressional committees and reports, it has been noted that many large retail broker dealers already offer cost basis functionality as a service to their customers. It is important to note that even the most sophisticated cost basis services do not fully conform to the new requirements. For instance, while DTCC’s CBRS system is an optional service for broker dealers, mutual funds and transfer agents have never participated in this service. Nor has CBRS data been subject to rigorous data validation that will be required to ensure that the data is accurate for reporting to the IRS. Industry coordination on transfers and corporate actions is an absolute necessity given the cross-participant communication requirements.

**Cost Basis Implementation Lifecycle – Release of Final Regulations is a Critical Dependency**

Cost basis implementation includes efforts on the part of multiple industry participants with differing responsibilities throughout the implementation lifecycle. Implementing the new cost basis requirements follows a largely sequential approach depending on the nature of the development required for each functional component (e.g., corporate actions, transfers, wash sales, etc.). The implementation lifecycle can be divided into the following categories:

- I. IRS Regulation Process – Proposed Regulations/Comment/Final Regulations
- II. Implementation Plan Determination (Industry, Internal Firm, IRS)
  - a. Review final regulations to determine scope of implementation required
  - b. Perform impact analysis – client and system

- c. Determine implementation methodology based on a review implementation options available (buy, build, partner, outsource) based on individual firm’s business strategy and operational capabilities
- d. Create Initial Project Plans and Work Package Plans (subject to continual updating)
- III. Operations/Technology Development Cycle (Repeat for 2012 and 2013 effective dates)
  - a. Requirements gathering and drafting including defining features, various user classes, interfacing needs, use cases, functionality requirements per area impacted, technical requirements per system component, etc.
  - a. Iterative Development and QA
  - b. Create Test Plans and Test Cases
  - c. Unit & Integration Testing
- IV. Procedure/Policy Development (While concurrent to the operations and technology activities, finalized policies and procedures will impact the operations development cycle.)
- V. External Testing
  - a. Entity to Entity Testing (e.g., BD to 3<sup>rd</sup> Party Vendor, BD to IRS; BD to DTCC CBRS, etc.)
  - b. Industry Testing (e.g., Mutual Funds, BDs and transfer agents test of account transfer, Stress testing with the IRS)
- VI. Deployment & Communication of January 2011 changes (Repeat for 2012 and 2013)
  - a. Deploy Internal system changes; coordinate with vendor dependencies
  - b. Internal and external communication to clients, registered reps, customer service staff, etc.

**Figure 1. Cost Basis Implementation Gantt Chart**

Implementation Lifecycle	2009	Activities to Meet Jan 1, 2011 Requirements (Preparation for 2012 and 2013 effective dates will likely include additional Phase II - VI activities)						
I. IRS Regulation Process								
II. Implementation Plan Determination								
III. Operations/Technology Development					TBD based on final regs			
IV. Policy/Procedure Development					TBD based on final regs			
V. Testing					TBD based on final regs			
VI. Deployment & Communication					TBD based on final regs			

**Implementation Planning without Final Regs: Client & System Considerations**

System changes are dependent on detailed functionality requirements and technical specifications, not proposed rules. Even subtle changes to proposed rules can have a major impact on a firm’s processes and systems. For example, to date we do not have final guidance on the amount of time a client will have to alter their lot selection after the time of trade. When communicating to clients that broker dealers will now be sending basis to the IRS, it is important to recognize that this is a “game changer” in terms of client expectations with broker provided tax reporting. If the regulations state that a client can change their election up to 30 days after trade or longer, this requires firms to consider automated solutions which can be very complex to support.

Topics such as "effective dates" are logical from a broker implementation perspective, but for clients this is likely to be a major source of confusion. The industry bears the burden of explaining why some trades are reported and others will not be. The burden of client education and the significant system

development required to meet client needs represents a significant portion of the total implementation cost. Making implementation plans in the absence of final regulations is challenging and costly if the decision is based on incorrect assumptions. If the industry fails to consider client needs in implementing this change, it will be very disruptive for all in the US investment community.

Other major obstacles to implementation planning include:

- Uncertainty regarding the new Form 1099B and accompanying instructions. Clear requirements of what data elements will be included and how they will be displayed (ex. lot level vs. position level etc.) impact implementation decisions with respect to client communication and system development. 1099B Form design lies in the critical path of the implementation timeline.
- Lack of guidance with respect to the extent of the audit trail required. This will have an impact on capacity requirements.

### **Adjacent System Integration across Cost Basis Workflow**

Accommodating the new cost basis requirements does not merely require changes to a single system – multiple systems and processes are impacted. Coordination of adjacent system deployment and vendor dependencies needs to be carefully managed. With regard to the many firms not currently providing cost basis for their clients, the utilization of third part vendor solutions is expected to increase dramatically. Vendors need to complete their development with ample time for rolling out new functionality to their current clients and the many new ones seeking to comply with the cost basis regulations.

For those firms using both vendor and in-house systems (50% of survey respondents), there is a waterfall effect in that vendors need to complete development before rolling out new functionality to clients who then need to ensure that internal systems integrate seamlessly with the vendor solution. Not only does this present a timing issue but hybrid solutions also increase the complexity of implementation. For example, those in the industry that use separate 1099 providers and cost basis systems may find differences between what their 1099 vendor calculates versus what their cost basis system/vendor calculates, such as an accretion/amortization/ OID calculations that are done by a 1099 vendor, but are different from what is calculated and used for cost basis adjustment in a cost basis system. Discrepancies in calculation methodology will need to be identified and reconciled to ensure accurate reporting.

### **External Testing Required to Reduce Systemic Risk**

The complexity and magnitude of these changes should not be underestimated. Extensive testing including coordinated industry testing will be required. The magnitude of tax lot data (~50 - 100 tax lots per brokerage account equates to tens of billions industry wide) makes any system change significant with long testing cycles. With the new cost basis reporting requirements, the 1099-B information return record is either going to become much bigger or one trade may result in two or three 1099-B reports. Stress testing of 1099B submission to the IRS will be an important component of entity-to-entity and/or industry testing. Adequate time for testing and remediation is imperative for the industry and the investor community.

### **Comprehensive Client Communication Required to Mitigate Confusion and Misreporting**

The customer experience must be considered and addressed properly. This will take substantial time. The Treasury has publicly stated that this is the most significant information reporting requirement since

the creation of the W-2. Taxpayers will need extensive education and support from the broker dealer community throughout the implementation lifecycle. It should be noted that only after internal system and process modifications are largely complete can client communication and education begin in earnest.

### **Impact of Maintaining Current Jan 1, 2011 Effective Date**

Even if final regulations are published in February 2010, that leaves only 11 months to complete the implementation lifecycle described above. When the Joint Committee on Taxation recommended imposing new cost basis requirements they acknowledged the administrative burden this would impose on the broker dealer and mutual fund community. Their proposal recommended an 18 month implementation period. Specifically the proposal<sup>2</sup> stated:

*To eliminate the administrative burden of determining and reporting basis on sales of property acquired before the effective date and to provide the industry a transition period to implement the necessary systems, the proposal applies only for transactions involving securities first purchased by the tax payer **at least 18 months** after the date of enactment.*

If the industry is not fully prepared on 1/1/2011, penalty relief will not suffice as this is not a onetime reporting obligation but a cost basis tracking obligation that is ongoing and relies on accuracy from the beginning. If the time allotted for testing is reduced in order to meet the Jan 1, 2011 we anticipate problems with clients and system problems. To meet client and regulatory requirements firms must have back end and front end solutions in place as of Jan 1, 2011 (including client education). Failure to do so will result in an investor outcry when new 1099B reporting arrives in 2012.

### **Recommended Next Steps**

As the IRS regulatory process moves forward, we respectfully request a meeting with the IRS and other relevant stakeholders to discuss implementation timing. The objective of the meeting would be to identify ways (e.g., changing effective date, limiting scope of 2011 requirements) to mitigate the systemic risk that such a significant change will have on the industry.

Please do not hesitate to contact me at 312 953 9228. We look forward to working with the IRS and the industry to address these concerns.

Regards,



Manisha Kimmel  
Executive Director  
Financial Information Forum

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<sup>2</sup> See [Additional Options to Improve Tax Compliance](#) prepared by the Joint Committee on Taxation, August 3, 2006



# **FIF Cost Basis Working Group**

## **Cost Basis Survey Report**

For questions regarding this document or to join the FIF Cost Basis Committee, please contact the FIF Program Office at [fifinfo@fif.com](mailto:fifinfo@fif.com).

Date: September 8, 2009

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## Executive Summary

The FIF Cost Basis Working Group addresses 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. After the IRS released Notice 2009-17, this group published two comment letters<sup>1</sup>. The result of several meetings on various Cost Basis Issues was the Cost Basis Survey released initially to FIF Members and later to the entire industry.

The survey report covers the following:

- Discussion of Methodology / Participation
- Highlights of Results

## Objective

Following are the objectives of this survey report:

- Identifying areas where IRS guidance is critical
- Estimating implementation effort and on-going support of new requirements
- Understanding biggest obstacles for firms to comply
- Highlighting areas for improved efficiency at the industry level

## Methodology

The following data is based on the results of the [FIF Cost Basis Survey](#) created by the FIF Cost Basis Working Group. The survey was completed by both FIF Members and Non-Members and consisted of the following questions:

1. What is your current level of basis support?
2. How do you propose to let your clients make cost basis changes going forward?
3. How do you think your operational staffing needs will change in order to ensure cost basis integrity?
4. Given the phased implementation schedule for covered securities, what will you prepare for between now and January 1, 2011?
5. Are you planning on a complete in-house solution or will you be using third party Cost Basis support?
6. What areas of preparation are you running into issues with as a result of the IRS not releasing final regulations on Cost Basis yet?
7. In man days, what are your current estimates of the implementation workload to meet the 1/1/2011 deadline?
8. How much time are you estimating for testing once development is complete?
9. Where are you in the planning process for this initiative?

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<sup>1</sup> See Initial FIF Comment Letter on IRS Notice 2009-17, dated [February 27, 2009](#) and FIF Comment Letter II dated [April 7, 2009](#)

10. Who is the business sponsor of this initiative at your firm (e.g., C-Level, SVP, VP, Managing Director, etc.)?
11. What department or departments are currently involved in the process?
12. Have you any suggestions or thoughts on ways to reduce the workload or facilitate the implementation for your firm or for the industry?

Please note: Most questions make use of check boxes and/or multiple choice responses for ease of input.

The analysis divides the questions under different topics with the question number included in parentheses for ease of identification. The topics are listed below:

- Existing Cost Basis Support (Q1)
- Planning for Cost Basis Changes
  - Current Status in Planning for this Initiative (Q9)
  - Estimating Time Required for Testing after Development (Q8)
  - Estimation of Implementation Workload to meet 2011 deadline (Q7)
  - Preparation between now and 2011 (Q4)
- Implementing Cost Basis Changes
  - Choosing an In-House Solution, Third Party or Hybrid (Q5)
  - Operational Staffing Changes to Ensure Cost Basis Integrity (Q3)
  - Level of Senior Management and Departments Involvement (Q10, Q11)
  - Giving Clients the Ability to Make Future Cost Basis Changes (Q2)
- Importance of IRS Releasing Final Guidance on Cost Basis and Survey Respondent Feedback
  - Areas Impacted as a result of Forthcoming Final Regulations on Cost Basis(Q6)
  - Survey Respondents Suggestions on Reducing Workload to Facilitate Implementation (Q12)

As of August 4, 2009, we received responses from 38 firms including:

**Table 1 Survey Participation by Firm Type as of Aug 4, 2009**

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

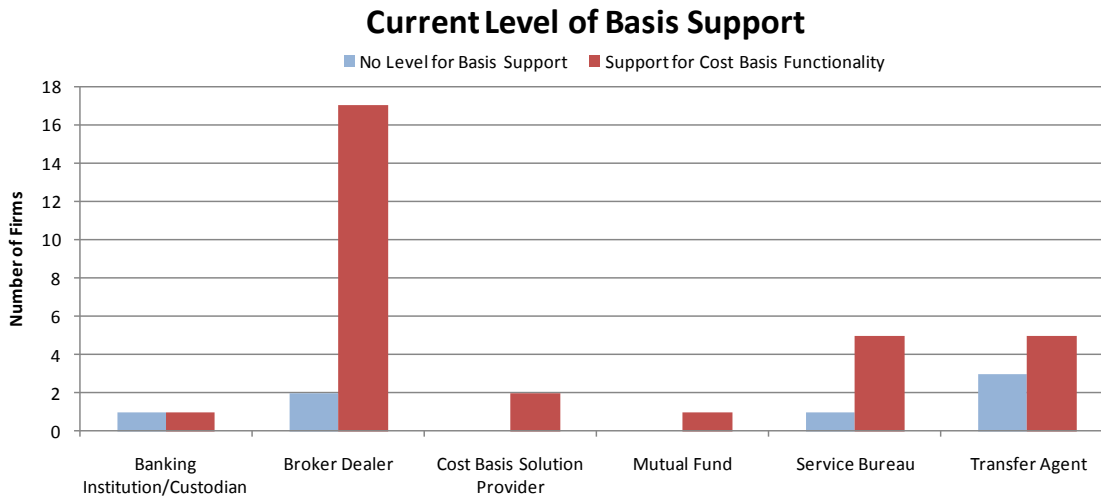
The survey was sent to Securities Industry Financial Markets Association (SIFMA), Information Reporting Program Advisory Committee (IRPAC) and Securities Transfer Association (STA). The following firms participated in the survey:

1. Pioneer Investments Management
2. Clearview Correspondent Services, LLC
3. Invesco Aim Investment Services, Inc.
4. Charles Schwab & Co. Inc.
5. Davenport & Company LLC
6. JennisonDrydend Funds
7. TD Ameritrade Holding Corporation
8. Bank of America / Merrill Lynch
9. Thomson Reuters – BETA Systems
10. Crescent Banking Company
11. Scottrade
12. Ridge Clearing & Outsourcing Solutions, Inc.
13. Broadridge SIS
14. Credit Suisse
15. Raymond James
16. GainsKeeper, Wolters Kluwer Financial Services
17. Empire Stock Transfer
18. SunGard
19. Edward Jones
20. Scivantage, Inc. (Maxit)

The remaining firms did not respond or wished to stay anonymous. Since the majority of the respondents were Broker Dealers, Transfer Agents and Service Bureaus, the analysis focuses mostly on these firm types.

## 1. Existing Cost Basis Support (Q1)

Survey participants were asked whether they provided support for Cost Basis. More than 80% of Broker Dealers and Service Bureaus provided some level of Basis Support.



Firm Type	Percent of Respondents with Some Level of Support
Broker Dealers	90%
Service Bureaus	83%

Only 21% of Broker Dealers reported currently supporting Wash Sales. In addition, 53% support accounting methods other than FIFO / Average Cost and 42% allow clients to make changes to cost basis (update missing cost basis or specify lots at time of trade). 37% of Broker Dealers can support Post Year-End Reclassifications for corrected gain / loss reports.

**Table 2 Current Cost Basis Functionality Supported (Broker Dealer and Service Bureau)**

Current Functionality Supported	Broker Dealer	Service Bureau
Wash Sales	21%	67%
Corporate Actions - Single Event	84%	83%
Corporate Actions - Multiple Events	74%	83%
Post Year-End Reallocations - Existing Positions	53%	67%
Post Year-End Reallocations - Previously Disposed Positions	37%	67%
Back Valuation	21%	67%
Operations staff dedicated to cost basis integrity	79%	67%
Client currently has ability to make changes	42%	83%

Equities	89%	83%
Options	63%	83%
Fixed Income	74%	83%
Mutual Funds	79%	67%
FIFO	79%	83%
Average Cost	53%	83%
Other	53%	67%
Total # of Firms	19	6

Broker Dealer Respondents made the following observations:

- Client has ability to make changes: ability update purchase info on positions without own basis due certificate deposits or account transfer; Methodologies: specific id
- Versus purchase methodology available. While cost basis system and staff are in place, we face challenges with regards to necessary adjustments to original basis, such as return of principal, non-dividend distributions, as well as post year end reclassifications.
- Limited Wash Sales and Average Cost available currently to only a specific product line (MFA product group). Will build out for all other security types.
- We currently have a cost basis solution but intend to convert to an upgraded version to accommodate Wash Sales and reclassification of income. Options and Fixed Income is also works in progress.
- We are by no means ready, I believe our biggest challenge will be transferring cost basis on Non-ACATS positions. E.g. Free receives, delivers, stock deposit, transfers and DRS.
- Work is ongoing on enhancing our system programming to meet current tax code and regulations and IRS guidance rather than waiting for IRS guidance pursuant to EESA 2008. We still encounter significant problems with structured products (particularly contingent payment debt instruments), multiple fractional lots and foreign securities (including rights and warrants) that do not provide U.S. tax guidance or cost basis info.

Service Bureau Respondents made the following comments:

- Multiple tiers of access from investor to super user that define the access they have and the types of changes the user can make.
- Least Gain methodology also supported.

## 2. Planning for Cost Basis Changes

### a. Current Status in Planning for this Initiative (Q9)

The following table shows various firm types position in the planning process. Most of the respondents (87%) are already in the planning stage having teams assembled and performing impact analysis and 11% of the respondents haven't started planning yet with some firms awaiting IRS clarification.

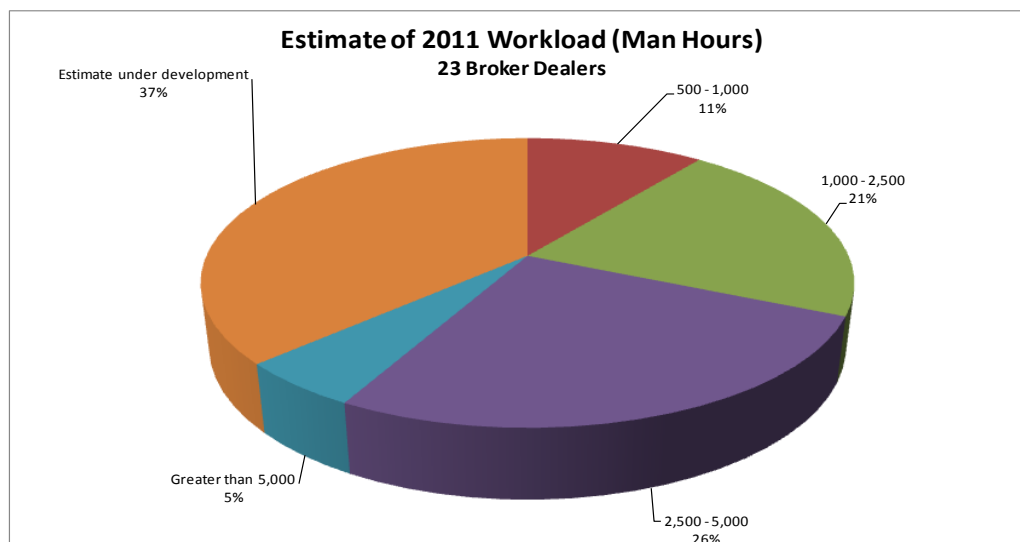
**Table 3 Firm Type Status in Planning Process**

Firm Type	Planning in Progress	Haven't Started Planning	No Response
Banking Institution/Custodian	1	1	
Broker Dealer	19		
Cost Basis Solution Provider	2		
Mutual Fund	1		
Service Bureau	5	1	
Transfer Agent	5	2	1
<b>Total</b>	<b>33</b>	<b>4</b>	<b>1</b>
<b>Percent of Total</b>	<b>87%</b>	<b>11%</b>	<b>3%</b>

### b. Estimation of Implementation Workload to meet 2011 Deadline (Q7)

Survey Respondents were asked for an estimate on implementation workload in man hours in order to meet the 1/1/2011 deadline. Only 53% of the respondents could provide an estimate with most including development, testing and training; the remaining 43% are still estimating the development. 75 % of those who provided an estimate felt they needed between 1,000 and greater than 5,000 man hours.

There were 23 Broker Dealer survey respondents out of which 32% estimated requiring between 500 and 2,500 man hours (see below) which approximately equals to more than \$2 million in cost. 37% of Broker Dealers estimate is still under development.



Following is the list of activities included in the workload estimate:

- Development
- Training
- Testing
- Software
- Form-design
- Database Cleanup
- Shareholder Communications
- Programming
- Updating procedures

### c. Estimating Time Required for Testing After Development (Q8)

After estimating the implementation workload, survey respondents were asked to indicate time required for testing once development is complete. 50% of the respondents felt they needed between 3 and 6 months, with 42% either not sure or still in the process of determining. Some respondents are waiting on their third party vendor to do the bulk of development, most feel it will take between 3 and 6 months and also require a separate industry testing window. One respondent felt testing would be ongoing through the implementation cycle and require more than 6 months.

**Table 4 Post-development Testing Time by Firm Type**

Firm Type	6 weeks	3 months	6 months	Other
Banking Institution/Custodian	0	0	1	1
Broker Dealer	1	7	3	8
Cost Basis Solution Provider	0	1	1	0
Mutual Fund	0	1	0	0
Service Bureau	0	2	0	4
Transfer Agent	2	2	1	3
<b>Total</b>	<b>3</b>	<b>13</b>	<b>6</b>	<b>16</b>
<i>Percent of Total</i>	<i>8%</i>	<i>34%</i>	<i>16%</i>	<i>42%</i>

### d. Preparation Between Now and 2011 (Q4)

Survey Respondents were asked that given the phased implementation schedule for covered securities, what they would prepare for between now and 2011. More than 90% of the firms are preparing to make changes with 37% of Broker

Dealers and 67% of Service Bureaus preparing for changes beyond 2011. The chart below shows a breakdown of firm types preparing for changes between now and 2011.

**Table 5 - Phased Implementation by Firm Type**

Firm Type	Phased Implementation - Preparation between now and Jan 1, 2011				
	All Requirements	Only for 2011	Some beyond 2011	TBD	Other
Banking Institution/Custodian	0	1	1	0	0
Broker Dealer	4	4	7	3	1
Cost Basis Solution Provider	2	0	0	0	0
Mutual Fund	1	0	0	0	0
Service Bureau	1	0	4	1	0
Transfer Agent	3	3	1	1	0
<b>Grand Total</b>	<b>37</b>				

Broker Dealer Respondents made the following observations:

- We are preparing for the full implementation, but will prioritize based on effective dates and based on when guidance is clarified.
- Part of our ongoing review process is to ensure that we do not surrender existing functionality as we prepare for 2011 requirements.

Service Bureau Respondents made the following observations:

- We are currently preparing for all requirements we can reasonably anticipate at this time (e.g. we are currently preparing to adjust the basis of equities for option premiums written against the security). However, we expect that there will be additional requirements that come out of the final rules that will require additional changes to our system.
- We believe that delaying the implementation by one year and requiring all securities but options to be tracked as of 1/1/2012 is the best way to go and will avoid quite a bit of confusion as it relates to hybrid, convertible and other structured products.



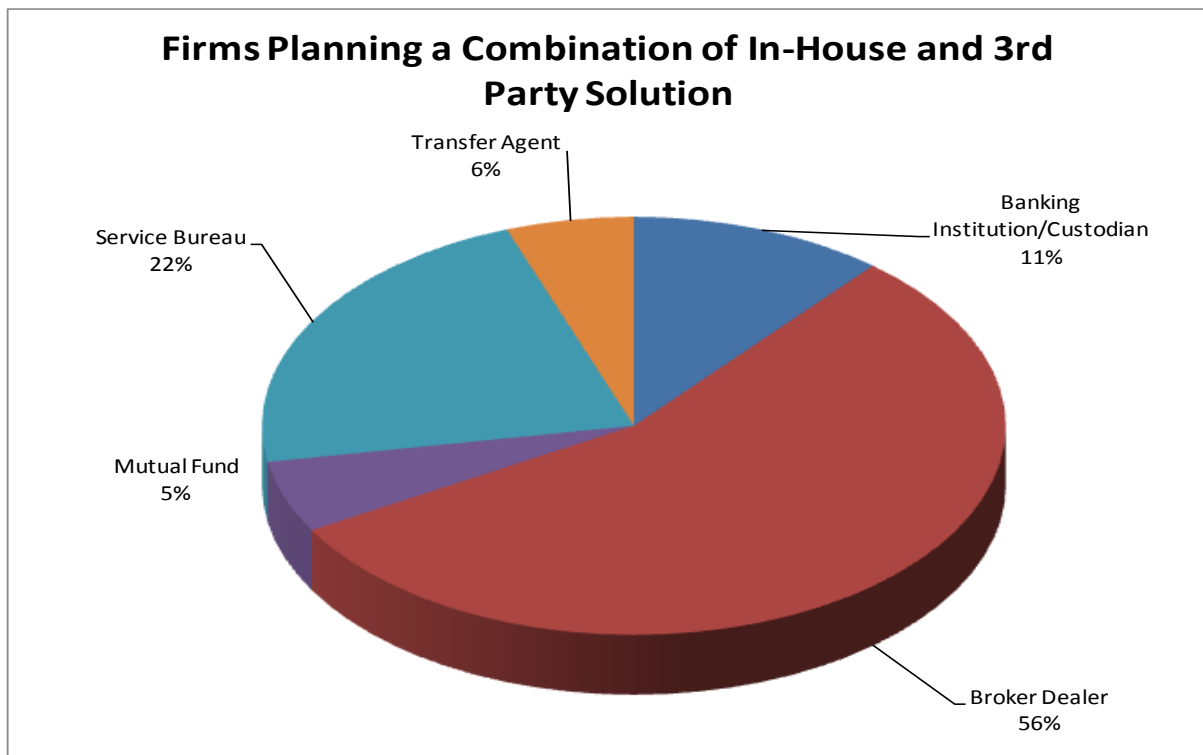
### 3. Implementing Cost Basis Changes

#### a. Choosing an In-House Solution, Third Party or Hybrid (Q5)

When asked whether firms were planning on a complete in-house solution or third party Cost Basis support, 50% of the respondents were planning on a combination of in-house solution and third party out of which 56% were Broker Dealers. In addition, 84% of Broker Dealers have a third party dependency (i.e. Software Provider).

**Table 6 In-house or Third Party Solution by Firm Type**

Firm Types	Third Party	Combination	Complete In-House	Total
Banking Institution/Custodian		2		2
Broker Dealer	5	11	3	19
Cost Basis Solution Provider	1		1	2
Mutual Fund		1		1
Service Bureau		4	2	6
Transfer Agent	2	1	5	8
<b>Grand Total</b>	<b>8</b>	<b>19</b>	<b>11</b>	<b>38</b>



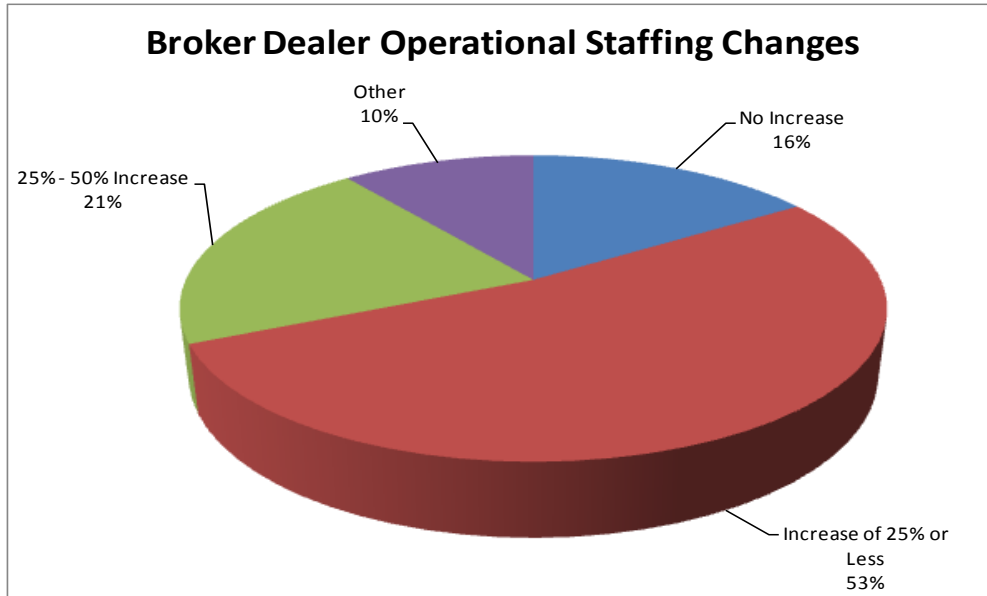
Broker Dealer Respondents made the following observations:

- Still in process of determining final solution, currently looking at both third party as well as in house solution. Third party vendors include Eagle, Accubasis, Scivantage, and Wolterskluwer.
- This is yet to be determined but we are leaning toward a in-house/third party interface

- Service Bureau and in-house design, with possibility for third-party support. (not yet determined)
- Expect to add to 3rd party vendor services to supplement increased population of cost basis volume.

**b. Operational Staffing Changes to Ensure Cost Basis Integrity (Q3)**

To ensure Cost Basis integrity, survey participants were asked how their operational staffing needs would change. 84% of the Broker Dealers indicated their staffing needs would change out of which 21% indicated an increase of 25% - 50%. One Broker Dealer firm indicated waiting for final IRS regulations which could impact their preliminary staffing changes.



**c. Level of Senior Management and Departments Involved (Q10, Q11)**

**Business sponsor of Cost Basis Initiative at firm (Q10)**

Survey participants were asked to indicate who the business sponsor at their firm was. The table below shows a summary of the responses; more than 50% of business sponsors are Senior Vice Presidents or Managing Directors.

**Table 7 Business Sponsor of Cost Basis Initiative**

Firm Type	Vice President or Manager	Senior Vice President or Managing Director	C-Level Executive	Total
Banking Institution/Custodian		1		1
Broker Dealer	3	8	4	15
Cost Basis Solution Provider		2		2
Mutual Fund		1		1

Service Bureau	4	5	4	13
<b>Total</b>	<b>7</b>	<b>17</b>	<b>8</b>	<b>32</b>

### What department or departments are currently involved in the process (Q11)?

Survey participants were asked which departments are currently involved in addressing the Cost Basis Initiatives. The responses reflect various groups from Infrastructure, Operations and Support. Respondents stressed on identifying more departments as they moved forward, from back office operations to trading interfaces.

Broker Dealers	Service Bureaus
<ul style="list-style-type: none"> <li>• Operations</li> <li>• IT</li> <li>• Marketing</li> <li>• Finance</li> <li>• Risk Management</li> <li>• Legal</li> <li>• Compliance</li> <li>• Account Transfers</li> <li>• Tax Reporting</li> <li>• Cost Basis Reporting</li> <li>• Clearing Operations</li> <li>• Prime Brokerage Operations</li> <li>• Product Development</li> <li>• Customer Service</li> <li>• Project Management</li> </ul>	<ul style="list-style-type: none"> <li>• Operations</li> <li>• IT</li> <li>• Product Development</li> <li>• Marketing</li> <li>• QA Analysis</li> <li>• Software Development</li> <li>• Project Management</li> </ul>

### d. Client Ability to Make Future Cost Basis Changes (Q12)

All Service Bureau survey participants indicated they would give clients the ability to make future Cost Basis changes. 58% of Broker Dealers will allow Cost Basis changes. 26% of the Broker Dealer respondents will not allow clients to make Cost Basis changes while the remaining haven't determined at this point. Some Broker Dealers are waiting for final regulations from the IRS to determine all changes.

**Table 8 Allowing Future Cost Basis Changes - by Firm Type**

Firm Type	No Changes Allowed	Changes Allowed	% of Respondents Allowing Changes
Banking Institution/Custodian	0	2	100%
Broker Dealer	5	11	58%
Cost Basis Solution Provider	1	1	50%

Mutual Fund	0	1	100%
Service Bureau	0	6	100%
Transfer Agent	3	5	63%

Broker Dealer Respondents made the following observations:

- Clients will be able to change default accounting method (i.e. identified lot or "high cost" to FIFO). At this time, we don't anticipate allowing changes from or to average cost. Clients cannot alter data tracked in our system. Clients can update data that is missing or was previously manually adjusted.
- If the security is purchased at our firm, no changes will be allowed, since our tax lot system will have all adequate data including corporate changes. Clients will not have direct access to change cost basis on covered securities or uncovered. For covered securities, clients will be required to submit evidencing documents (Trade Confirm, contra-firm statement, etc) detailing and validating cost basis change. Documents to be reviewed and approved by Cost Basis central team. For uncovered security, clients may reach out to their Financial Advisors as well, but will not require providing validating documentation.
- Changes will still be allowed are pre-effective lots. We will probably still allow updates in the case of inherited or gifts, we need to determine how to flag them to allow updates.
- All changes to cost basis are TBD depending on legislation direction
- Users will be able to update cost basis on pre-effective date lots that were transferred to the account or that were purchased prior to the development of the system and post effective date shares may be updated to the extent allowable by IRS regulation.

## **4. Importance of IRS Releasing Final Guidance on Cost Basis and Survey Respondent Feedback (Q6)**

### **a. Areas of Preparation Impacted due to Lack of IRS Guidance on Final Regulations (Q6)**

With firms still waiting for IRS guidance on Final Regulations, survey participants were asked to identify areas of preparation that are being impacted.

For Broker Dealers and Service Bureaus, the top issues included 1099-B design, Account Transfers, Methodology Selection and Issuer Communications.

In addition, Service Bureaus chose DRIP Programs, Short Sales and Option Transactions as areas of preparation being impacted.

Both Broker Dealers and Service Bureaus underscored the need for IRS to release final regulations; a number of initiatives have been put on hold until regulations are released. In addition, there are dependencies with third party providers and assumptions of particular requirements which pose a greater risk if assumed wrong.

Broker Dealer and Service Bureau Respondents made the following observations:

- Concerned about issues that may create big system changes requiring long lead times (i.e. bifurcating average cost holdings).
- We are awaiting specific guidelines to be released by the IRS, so that we have set criteria that must be met by either a third party or an in house solution.
- Our biggest area of concern is presentation to the client and the associated reporting layouts required for the IRS transmission.
- Will the IRS also be ready to take in millions of industry tax lot records and subsequently reconcile them with client schedule "D" tax records? Since each firm will now have to begin passing basis at the individual tax lot level, this in my view potentially could be a bottleneck of information paralysis. There's a great deal of work and expense in building out existing tax lot systems or contracting/outsourcing requirements with 3rd party vendors.
- See the FIF Issues list. There are more than 20 awaiting IRS decisions. We also have many others in addition to the list.
- Some examples are:
  - Cost basis transfer rules for DVP accounts.;
  - What will be lock down period for adjustments to cost basis;
  - Requirements for adjustments to cost basis for positions no longer held by the broker due to post year end income reallocation;
  - Wash sale rules for substantially identical securities;

**b. Have you any suggestions or thoughts on ways to reduce the workload or facilitate the implementation for your firm or for the industry? (Q12)**

**Banking Institution/Custodian - Opportunities for Implementation Efficiency (1 Response)**

Not yet.

**Broker Dealer - Opportunities for Implementation Efficiency (11 Responses)**

We need clear and final regulations

Identify biggest common pain points in implementation for Industry and communicate with IRS to alleviate pain points. Effective date is a prime example.

With the large number of industry groups involved, such as ICI, SIFMA, STA, BDUG, FIF, etc....am concerned that if there is not enough communication between these groups, or if these groups pursue agendas specific to their portion of the industry, that can weaken our stance as we collectively pursue additional guidance from the IRS. ; ; Would like to encourage more informal communication between those involved with cost basis reporting at their respective firms, perhaps create a directory of peers, share best practices, etc...

Ensure that we get guidance as soon as possible; publish a list of best practices or have a working group that meets regularly.

First and foremost, each firm needs to do a good gap analysis to ensure they capture what they do well, not so well or don't do at all. Secondly, prioritize based on risk and timeline phases. Since application/coding work is required at some level, look for ways to automate exceptions or processes that are manually driven today. Finally, a well rounded team of resources (operational experts, legal minds and technical savvy folks) is a must. Be prepared to spend many hours in white boarding meetings.

They key will be to have proper clarifications from the IRS so systems can be accurate enhanced and to have standardization in the industry. The IRS needs to change their approach to supply guidance on the items expected for year 1 instead of trying to address all issues at once.

Not at this time

Continuing industry engagement and discussions on best practices to assure consistency in maintaining, calculating and reporting cost basis where it makes sense to do so.

There are a lot of open questions and we need answers. I believe as an industry we cannot wait for the IRS we need a strong joint committee to get solid answers and communicate to the industry and IRS.

Industry appears to have a need for unified communication/lobbying efforts to have legislative mandate & implementation dates moved back. Indications demonstrate high risk that industry systems will not be fully prepared when implementation deadlines arrive.

First, the IRS needs to issue its guidance immediately because there is probably already too little time for many business units to implement the needed programming. There are many lines of business that have no programming at all, unlike with the retail brokerage division that had a head start because it was provided for competitive reasons -- even though we knew it was often inaccurate.

Second, the IRS has to address the fact that cost basis is often impacted by taxpayer elections so the information will be very hard to track and standardize.;

Third, customers need to be made aware that there will be significant gaps in the information because  
 (a) it really only impacts securities acquired as of the various effective dates and not previously owned securities, and  
 (b) Foreign companies have no legal duty to provide any cost basis information and they undergo many types of corporate actions where no information is provided.

**Cost Basis Solution Provider - Opportunities for Implementation Efficiency (2 Responses)**

Information from industry sources and networks, such as Financial Information Forum, is invaluable in helping brokers assess the potential complexities. In general, attention to detail (both operational and tax law related)

	early on in preparing to comply with the new law should minimize missteps in preparing for the new cost basis law. This is critical given the rapid approaching deadline.
	We are encouraging our client firms to offer investors the broadest basis coverage possible now, rather than implement coverage in multiple upgrades by security type. IRS reporting would still be limited to requirements by effective date, but investors would benefit by this higher level of service and, overall, the costs of basis implementation will be reduced.
<b>Mutual Fund - Opportunities for Implementation Efficiency (1 Response)</b>	
	none
<b>Service Bureau - Opportunities for Implementation Efficiency (11 Responses)</b>	
	We think the industry workload would be reduced through outsourcing to or partnering with dedicated vendors.
	The sooner we can get response from the IRS 2009-17 questionnaire so we can finalize any additional development items
	1. - Consolidate 2011 and 2012 reporting requirements into 2012 only. 2. - Make IRS information more forthcoming and develop a close industry - IRS working relationship. 3. - Early dissemination of the proposed 1099b forms (same time as Rags.). 4. - Require reporting of initial purchases and sales separately and place all cost bases tracking obligations and reporting back on taxpayer. However include options as reportable by the broker for purchases and sales as well.
	More regular and up-to-date flow of information; more industry forums
<b>Transfer Agent - Opportunities for Implementation Efficiency (6 Responses)</b>	
	I do not believe that transfer agents should be held responsible for cost basis accounting.
	None at this time
	I really just think that requiring this is highly unnecessary,
	See above point 2
	Limit client options for change once a method has been selected.
	Prompt guidance from the IRS is desperately needed to facilitate implementation prior to the rules effective date.

## Appendix 1: FIFO Cost Basis Survey

Please note: Comments may be added to any question. We encourage your feedback even if you have not finalized your plans regarding cost basis implementation.

### 1) What is your current level of basis support?

- None
- Support for cost basis functionality as described below. (Check all that apply)

#### Capabilities

- Wash Sales
- Corporate Actions - Single Event
- Corporate Actions - Multiple Events
- Post Year-End Reallocations - Existing Positions
- Post Year-End Reallocations - Previously Disposed Positions
- Back Valuation
- Operations staff dedicated to cost basis integrity
- Client has ability to make changes

#### Security Types

- Equities
- Options
- Fixed Income
- Mutual Funds

#### Methodologies

- FIFO
- Average Cost
- Other (Please Specify)

Additional Comments:

### 2) How do you propose to let your clients make cost basis changes going forward?

- No changes will be allowed.
- Changes allowed. Please describe how and when changes will be allowed.

### 3) How do you think your operational staffing needs will change in order to ensure cost basis integrity?

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

### 4) Given the phased implementation schedule for covered securities, what will you prepare for between now and January 1, 2011?

- Will prepare for all requirements effective Jan 2011, 2012 and 2013.
- Will prepare for some changes beyond Jan 2011.
- Only making changes for Jan 2011 at this time.



- Approach not determined
- Other. Please describe below.

**5) Are you planning on a complete in-house solution or will you be using third party Cost Basis support?**

- Complete in-house
- 3rd parties. Please identify.
- Combination of in-house and third party. Please describe below.

**6) What areas of preparation are you running into issues with as a result of the IRS not releasing final regulations on Cost Basis yet? Check all that apply:**

- |   |  |
|---|--|
| <input type="checkbox"/> 1099-B Design  | <input type="checkbox"/> Short Sales                                       |
| <input type="checkbox"/> Methodology Selection and Frequency of Changes   | <input type="checkbox"/> Option Transactions                               |
| <input type="checkbox"/> DRIP Programs  | <input type="checkbox"/> Mutual Funds                                      |
| <input type="checkbox"/> Wash Sales   | <input type="checkbox"/> Account Transfers                                 |
| <input type="checkbox"/> Definition of Identical Securities   | <input type="checkbox"/> Issuer Communications Regarding Corporate Actions |
| <input type="checkbox"/> Determining Effective Reporting Dates for Hybrid, Convertible and Other Specified Securities Not Clearly Falling into a Defined Category |  |

**7) In man days, what are you current estimates of the implementation workload to meet the 1/1/2011 deadline?**

- Less than 500
- 500 - 1,000
- 1,000 - 2,500
- 2,500 - 5,000
- Greater than 5,000
- Estimate under development

**8) How much time are you estimating for testing once development is complete?**

- 6 months
- 3 months
- 6 weeks
- Other. Please describe.

**9) Where are you in the planning process for this initiative?**

- Haven't started planning. Please identify when you expect to begin analysis.
- Planning in progress. Please identify what level of planning is complete, e.g., team assembled, impact analysis in progress, etc.)

**10) Who is the business sponsor of this initiative at your firm (e.g., C-Level, SVP, VP, Managing Director, etc.)?**

**11) What department or departments are currently involved in the process?**

**12) Have you any suggestions or thoughts on ways to reduce the workload or facilitate the implementation for your firm or for the industry?**

# Appendix 2: Survey Participants

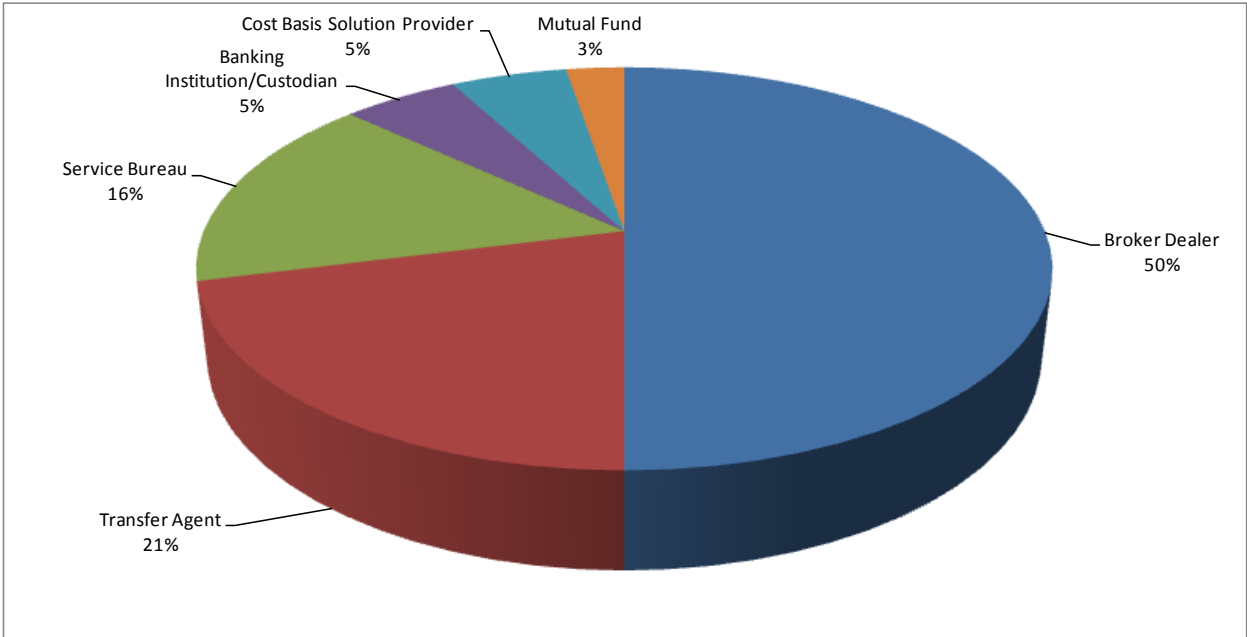


Figure 1 Survey Participants - Percentage Breakdown

## Appendix 3: Current Level of Support (Q1) – Functionality Supported and Respondent Comments

### Current Level of Support – Quantitative Results

Current Functionality Supported	Banking Institution/ Custodian	Broker Dealer	Cost Basis Solution Provider	Mutual Fund	Service Bureau	Transfer Agent
<b>Capabilities</b>						
Wash Sales	50%	21%	100%	100%	67%	25%
Corporate Actions - Single Event	50%	84%	100%	0%	83%	13%
Corporate Actions - Multiple Events	0%	74%	100%	0%	83%	38%
Post Year-End Reallocations - Existing Positions	0%	53%	100%	0%	67%	25%
Post Year-End Reallocations - Previously Disposed Positions	0%	37%	100%	0%	67%	0%
Back Valuation	0%	21%	100%	0%	67%	0%
Operations staff dedicated to cost basis integrity	0%	79%	100%	0%	67%	25%
Client currently has ability to make changes	0%	42%	100%	0%	83%	0%
<b>Security Types</b>						
Equities	50%	89%	100%	0%	83%	38%
Options	50%	63%	100%	0%	83%	13%
Fixed Income	50%	74%	100%	0%	83%	0%
Mutual Funds	50%	79%	100%	100%	67%	25%
<b>Methodologies</b>						
FIFO	50%	79%	100%	0%	83%	13%
Average Cost	50%	53%	100%	100%	83%	38%
Other	50%	53%	100%	0%	67%	13%
Total # of Firms	2	19	2	1	6	8

### Current Level of Support – Respondent Comments

#### Broker Dealer Comments on Current Capabilities (14 Responses)

We offer "high cost" and LIFO as well.

Client has ability to make changes: ability update purchase info on positions without own basis due certificate deposits or account transfer; Methodologies: specific id

Verses purchase methodology available. While cost basis system and staff are in place, we face challenges with regards to necessary adjustments to original basis, such as return of principal, non-dividend distributions, as well as post year end reclassifications.

Our gain/loss statements use either designated lot or highest cost

We also support specific identification of tax lots. Clients can only make changes through their broker and that is validated and entered into the system by Operations.

Limited Wash Sales and Average Cost available currently to only a specific product line (MFA product group). Will build out for all other security types.

We currently have a cost basis solution but intend to convert to an upgraded version to accommodate Wash

Sales and reclassification of income. Options and Fixed Income is also works in progress.

\*Mutual Funds - Average Cost methodology, wash sales with tacking, return of capital. (Acquired H&R Block - does all mutual funds FIFO); \*Equities - FIFO for most products, Managed Account products - HIFO. No additional capabilities for equities. \*Client has the ability to make changes to an account/CUSIP if the basis is currently not available (n/a).

Versus, High-Low, Low-High

Specific ID, LIFO, Min Tax, Max Gain, Minimize Short-Term Gain, Minimize Long-Term Gain, Maximize Short-Term Gain & Maximize Long-Term Gain

Our system also handles specific lot trades

We are by no means ready, I believe our biggest challenge will be transferring cost basis on Non-ACATS positions. E.g. Free receives, delivers, stock deposit, transfers and DRS.

Specific ID as applicable, else default to FIFO.

Work is ongoing on enhancing our system programming to meet current tax code and regulations and IRS guidance rather than waiting for IRS guidance pursuant to EESA 2008. We still encounter significant problems with structured products (particularly contingent payment debt instruments), multiple fractional lots and foreign securities (including rights and warrants) that do not provide U.S. tax guidance or cost basis info.

#### Cost Basis Provider Comments on Current Capabilities (1 Response)

We provide extensive, detailed and tax accurate cost basis functionality that covers all necessary capabilities (including wash sales, corporate actions, changes and reallocations), all required security types, and all available methodologies (FIFO, average cost, specific ID and various methods based on specific ID including HIFO, LIFO, etc.). This functionality is in production and includes tax accurate rules for short sales and related wash sales of securities which is an often overlooked requirement of the new law.

#### Service Bureau Comments on Current Capabilities (4 Responses)

Also support HIFO and versus purchase (specified lot)

Multiple tiers of access from investor to super user that define the access they have and the types of changes the user can make.

Specified lots

Least Gain methodology also supported.

#### Transfer Agent Comments on Current Capabilities (1 Response)

When provided, we key in the per share price of new issuances directed by our Issuer clients.

## Appendix 4: Current Status in Planning for this Initiative (Q9) – Respondent Comments

### Where in Planning Process – Comments

Banking Institution/Custodian Comments on Stage of Planning (1 Response)	
	4th quarter 2009
Broker Dealer Comments on Stage of Planning (15 Responses)	
	Assembled a team, impact analysis is complete, Identified small and large projects
	Team assembled and impact analysis in progress.
	Impact analysis in progress
	Team assembled, RFP is in process, with goal of determining our firm's direction to either a third party solution, in-house solution, or hybrid solution using both third party and in house components. Due date is later this summer.
	Team is assembled, impact analysis is in progress. We are working on income reallocations and wash sales. All else is pretty much up in the air until we receive guidance
	Teams' assembled, high-level plans laid, waiting for funding.
	Started planning early in 2008. Cost Basis team completed an impact/gap analysis and secured funding. Projects have commenced and are expected to be delivered in phases throughout 2009 - 2012.
	System discussions stalled awaiting IRS clarification.
	Impact analysis in process.
	Begin due diligence of vendors
	Our organization is gathering business requirements and conducting a feasibility study to determine the best approach.
	Team assembled, design review
	Impact analysis in progress - bulk of response contingent upon how vendors systems address.
	We are working with our vendor to develop the system
	Team is assembled, work is under way to address known issues, and analysis is ongoing for new reporting requirements.
Cost Basis Solution Provider Comments on Stage of Planning (2 Responses)	
	Although we have a fully functioning compliant cost basis system and thus planning could be considered complete, we regularly discuss additional enhancements and features desired by brokers. This enhancement related planning is done by our senior management and development team leads.
	Planning complete to the point of known requirements. Additional planning is dependent on IRS guidance.
Service Bureau Comments on Stage of Planning (5 Responses)	
	Team assembled. Working with B/D clients to prioritize known work. Continue to research "unknown" work to try and gather as much info as possible and plan.
	We have multiple projects in progress. We expect additional projects will have to be initiated once final rules are published.
	Product, development and QA resources working together
	Projects impacting 1/1/2011 starting date have been identified and some are underway. Other potential projects are under consideration, while others still need to be defined.
	Work currently on-going: business requirements, impact analysis, research being done by a team.
Transfer Agent Comments on Stage of Planning (7 Responses)	
	In progress. Team assembled.
	Very, very preliminary planning ONLY.

	Waiting for the final rule.
	Working with software vendor for program changes. Need guidance from IRS.
	Funding is authorized, project team is in place, analysis is in progress and requirements are in early stage.
	team assembled, impact analysis in progress
	Internal teams have been assembled. Impact analysis in progress. Implementation checklist is under draft. Model 1099-B form currently under draft for recommendation to the IRS. Participating on various industry discussions and efforts.

## Appendix 5: Estimation of Implementation Workload to meet 2011 deadline (Q7) – Man Hours required and Respondent Comments

### Implementation Effort to Meet 2011 Requirements – Quantitative Results

Firm Type	Less than 500	500 - 1,000	1,000 - 2,500	2,500 - 5,000	Greater than 5,000	Estimate under development
Banking Institution/Custodian	1	0	0	0	0	1
Broker Dealer	0	2	4	5	1	7
Cost Basis Solution Provider	1	0	0	0	1	0
Mutual Fund	0	0	0	1	0	0
Service Bureau	0	0	0	1	1	4
Transfer Agent	1	0	1	0	0	6
<b>Grand Total</b>	<b>3</b>	<b>2</b>	<b>5</b>	<b>7</b>	<b>3</b>	<b>18</b>

### Implementation Effort to Meet 2011 Requirements – Comments

#### Broker Dealer Comments on Estimate of 2011 Workload (10 Responses)

	Includes development, testing, training, software costs. It also includes measures deemed necessary from client experience perspective in addition to regulatory compliance measures. This spend would extend beyond Jan 1 2011.
	We presently offer cost basis in the Non-Reportable section of the 1099. Service Bureau testing on sorting out only 2011 transactions; and wash sales is most of the workload.
	Development, form design, testing, database clean-up.
	All 3. Development of applications/coding, testing (end to end), training, modifying existing support models.
	Development, Testing, Training, marketing, educational materials, websites, account documentation, legal
	Includes discovery, development, testing, and training.
	Requirements gathering, IT development, Use case development, system testing, User testing, Industry testing
	the biggest is system development, and understanding the requirements
	Development, re-design ancillary systems, testing, training
	Development, testing, training and communications.

#### Cost Basis Solution Provider Comments on Estimate of 2011 Workload (1 Response)



We already provide operational cost basis computations that address the requirements of the new law. In our experience and based on other surveys and reports, there is likely to be significant implementation work that many dealers must complete and validate over the next 17 months in order to be compliant with the new cost basis law by the required deadline . The amount of work will vary widely from broker to broker based on the current systems and data detail that they have. Given the number of systems and operations people that might need to be involved based on a broker's system (ten to twenty or more) and the realistic timeline for implementation and testing (9 months to a year), the amount of work could be significant.

**Mutual Fund Comments on Estimate of 2011 Workload (1 Response)**

System development, testing, training, marketing materials upgraded to include language

**Service Bureau Comments on Estimate of 2011 Workload (4Responses)**

Full SDLC - approach, functional specification, programming, unit testing, user acceptance testing, industry testing (if applicable).

Until final regulations are published, we cannot reasonably estimate this workload.

Initial estimate is 28,000 plus requirements drafting.

We do anticipate more than 5000 hours development to include testing, training and other work required.

**Transfer Agent Comments on Estimate of 2011 Workload (1 Response)**

Software changes for recording basis and calculating long term and short term gains, testing, training, updating procedures, shareholder communications, form revisions for reporting to IRS and shareholder.

## Appendix 6: Estimating Time Required for Testing after Development (Q8) – Respondent Comments

### Post-development Testing Time – Comments

#### Banking Institution/Custodian Comments on Testing Time (1 Response)

Most of our development will be done by our third party vendor. Our time will be spent in changing and implementing new policies and procedures.

#### Broker Dealer Comments on Testing Time (11 Responses)

Estimate under development

Undetermined

Working on individual projects to meet regulatory requirements. As projects move from coding to testing, the appropriate timeline for testing will follow. Can be anywhere from 6 weeks to 3 months depending on severity/risk of process.

Testing will take longer than 6 months. Probably ongoing through the implementation cycle.

Expect to complete 3-4 months of testing per annual implementation.

Phase 1 Only as each subsequent phase will require substantial regression testing on top of new development.

It would be longer if we did not have a tax lot system

Depends on how the vendors deploy in relation to deadlines.

3-6 months

Testing normally takes 2 - 4 weeks for each change that is implemented, so the total testing time is probably more than a year if you take everything into account.

#### Cost Basis Solution Provider Comments on Testing Time (1 Response)

We have been involved in a number of implementations and the amount of testing has generally ranged from 3 to 6 months.

#### Service Bureau Comments on Testing Time (4 Responses)

Assume large amount of testing on individual changes, plus industry testing window.

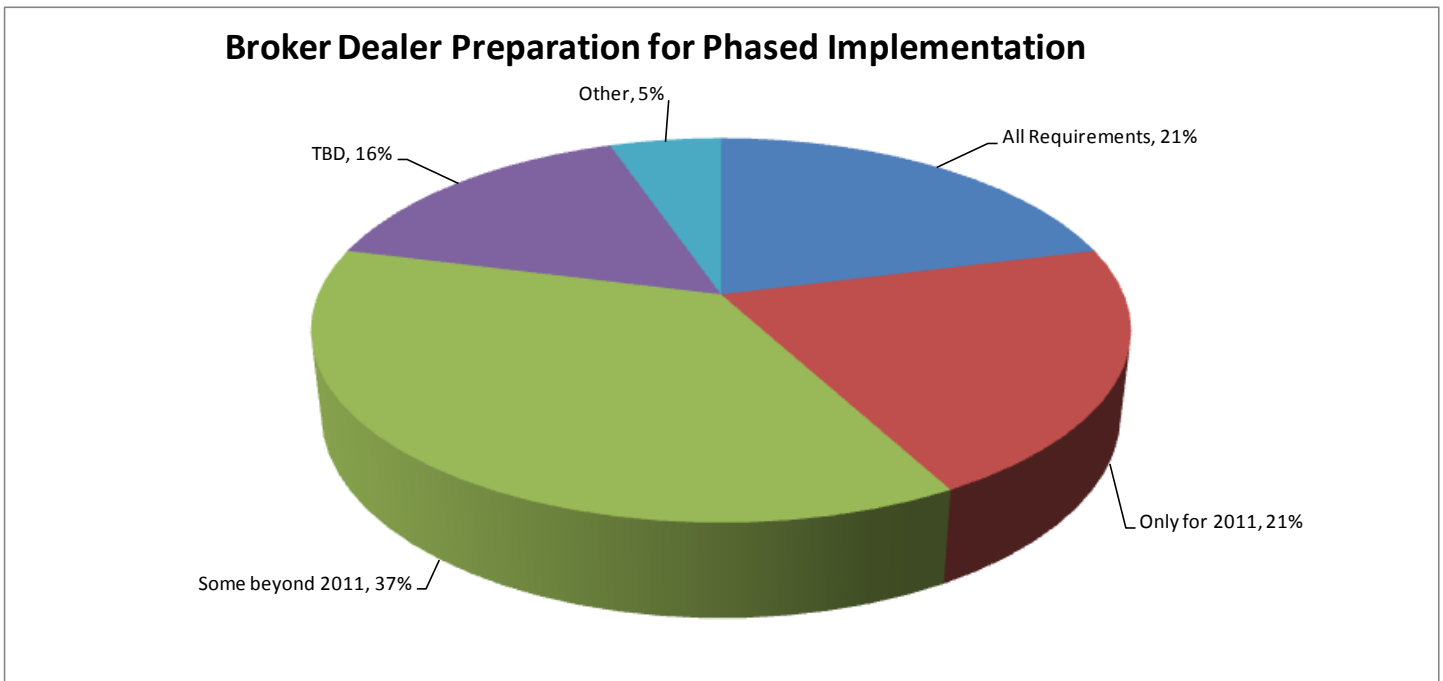
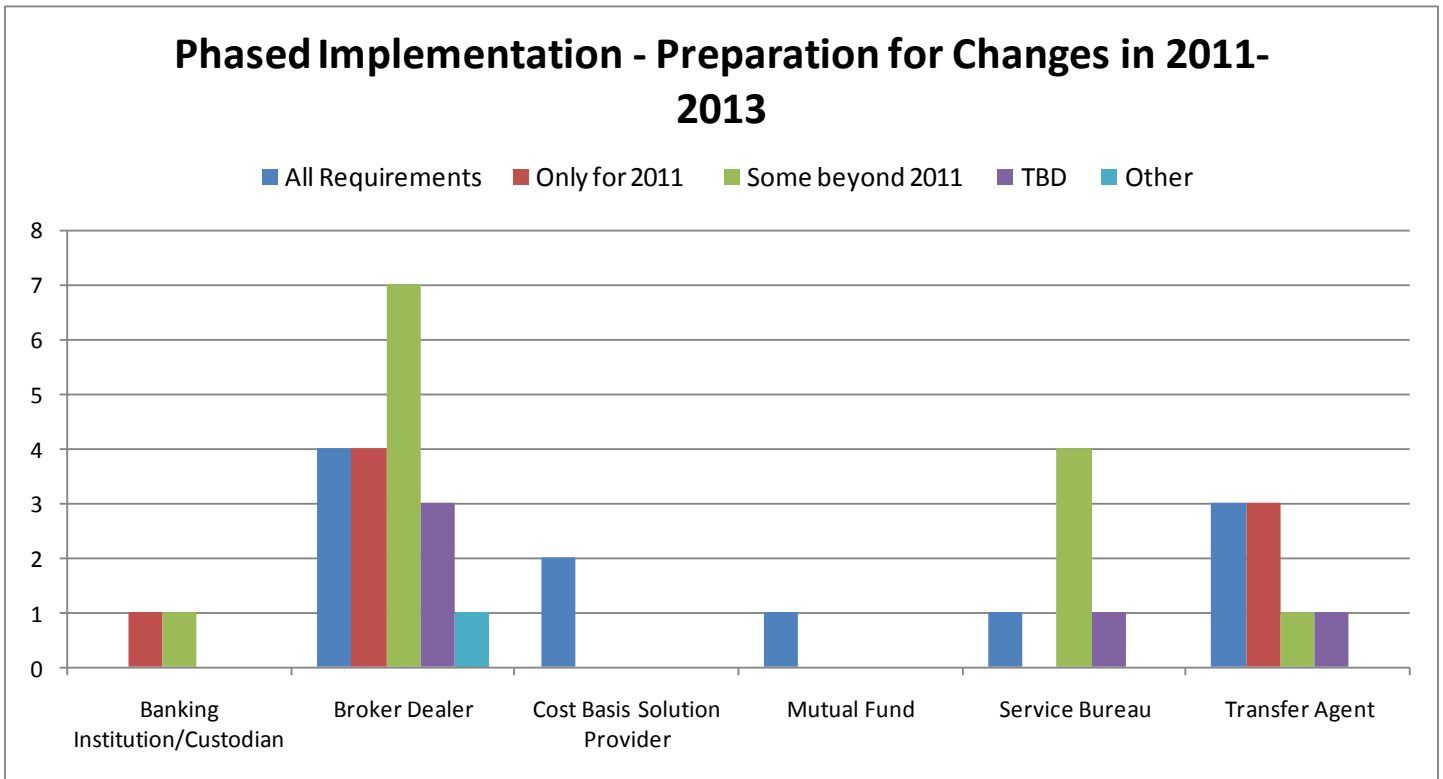
In addition to internal testing, we expect to test with the IRS prior to filing in 2011. Testing with the IRS should include both syntax and capacity testing.

As this is a phased-in implementation that spans 3 years, we will need to re-test codes.

	Do not know yet.
<b>Transfer Agent Comments on Testing Time (3 Responses)</b>	
	Not sure yet.
	Not Sure yet
	Estimate under development

## Appendix 7: Preparation between now and 2011 (Q4) – Quantitative Results and Respondent Comments

### Preparation between now and 2011 – Quantitative Results



## Preparation between now and 2011- Comments

### Broker Dealer Comments on Preparation between now and 2011 (4 Responses)

We are preparing for the full implementation, but will prioritize based on effective dates and based on when guidance is clarified.

Part of our ongoing review process is to ensure that we do not surrender existing functionality as we prepare for 2011 requirements.

At our firm, we have adopted a multiyear approach that will allow compliance based on phased timeline. We anticipate being complete by 2012 with all requirements.

We will address systems gaps that are sustainable in an environment where tax lot information is informational only, but not in an environment where the information is required by law.

### Cost Basis Solution Provider Comments on Preparation between now and 2011 (1 Response)

We have been providing cost basis related tax calculations for almost ten years. We will prepare for all requirements under the new law. We will include functionality for each effective date in advance of the applicable deadline. Specific aspects of the development will be phased to take into account the anticipated release of IRS guidance in phases between now and 2013.

### Service Bureau Comments on Preparation between now and 2011 (3 Responses)

We are currently preparing for all requirements we can reasonably anticipate at this time (e.g. we are currently preparing to adjust the basis of equities for option premiums written against the security). However, we expect that there will be additional requirements that come out of the final rules that will require additional changes to our system.

We believe that delaying the implementation by one year and requiring all securities but options to be tracked as of 1/1/2012 is the best way to go and will avoid quite a bit of confusion as it relates to hybrid, convertible and other structured products.

Will still need guidance from the IRS.

### Transfer Agent Comments on Preparation between now and 2011 (3 Responses)

Am trying to establish when our cost basis actually began. Was it at the time we became a holding company or does it go back before that? We had several splits before becoming a holding company and several after. Our corporate attorney is working on this.

As an issuer-agent we transfer only our own shareholder equity positions registered on our books. We are working with our software vendor to make the required recording and reporting changes.

Working on all phases, but primary focus is currently on new 1099-B forms and establishing what the Fund default methods will be.

## Appendix 8: Choosing an In-House Solution, Third Party or Hybrid (Q5) – Respondent Comments

### In-house or Third Party Solution – Comments

#### Banking Institution/Custodian Comments on In-House or Third party Solutions (1 Response)

We currently use the Accubasis system to help determine cost basis for assets received without basis.

#### Broker Dealer Comments on In-House or Third party Solutions (13 Responses)

We will do development and so will our software provider.

Still in process of determining final solution, currently looking at both third party as well as in house solution. Third party vendors include Eagle, Accubasis, Scivantage, and Wolterskluwer.

This is yet to be determined but we are leaning toward a in-house/third party interface

Service Bureau and in-house design, with possibility for third-party support. (not yet determined)

We use a vendor for our back-office support that includes cost basis. Our tax reporting system is in-house.

In house at the moment, we may enroll in additional services for corporate actions.

Currently utilize several cost basis systems that will not be consolidated into one core system by 1/1/2011. Point of arrival (2013) is to consolidate all products/business within one platform that can be supported by our POA Clearing vendor.

We are exploring a combined approach using our book & record provider for tax reporting and building customer centric tools in house as necessary.

Expect to add to 3rd party vendor services to supplement increased population of cost basis volume.

While the cost basis information will be completely in house for retail brokerage customers, we anticipate needing to have significant assistance with obtaining information related to corporate actions and foreign securities. There will continue to be significant gaps in the reporting of cost basis because so many issuers are not subject to the jurisdiction of U.S. laws.

#### Cost Basis Solution Provider Comments on In-House or Third party Solutions (2 Responses)

This question is not directly applicable to us as a vendor. However, our recent experience is that almost all brokers are at least seriously considering a third party solution as part of any due diligence process relating to addressing the new law's regulatory impact. In significant part, we have noted the focus by some brokers on the need for dedicated tax resources and ongoing tax development monitoring.

Question doesn't really apply to cost basis vendors.

#### Mutual Fund Comments on In-House or Third party Solutions (1 Response)

Record keeping system has regulatory obligation to be able to support basis reporting.

#### Service Bureau Comments on In-House or Third party Solutions (3 Responses)

As a service bureau, we can provide a complete solution, however we are also prepared to work in concert with other in house solutions and / or third party vendors.

We will using a third party as its tax cost basis engine but all other responsibilities (CBRS, Tax Lots, Tax Reporting, etc.) will be in house.

We have an in-house system but we're also integrated with other subsidiaries within our firm.

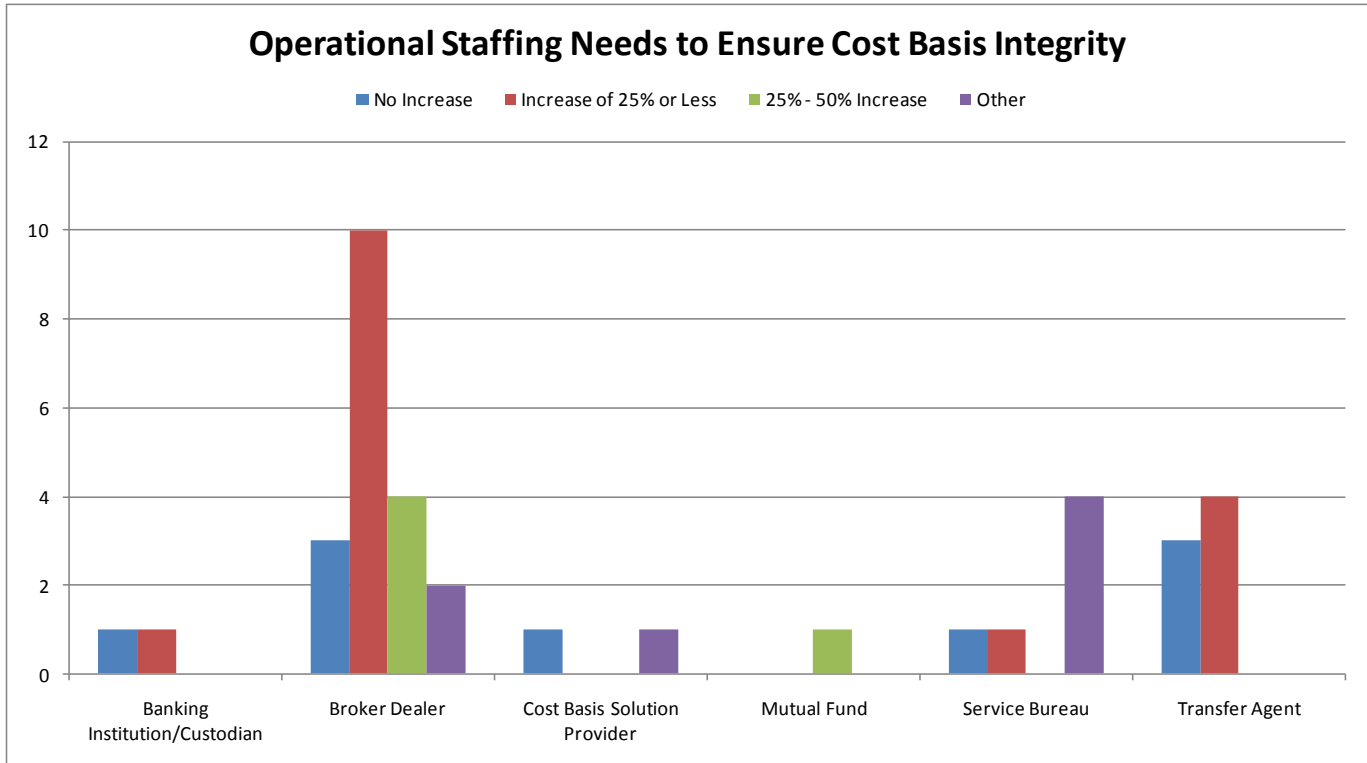
#### Transfer Agent Comments on In-House or Third party Solutions (3 Responses)

Have an IT professional working on this with me.

We reside on the DST transfer agent platform and will be using DST's in-house solution for CBR.

## Appendix 9: Operational Staffing Changes to Ensure Cost Basis Integrity (Q3) – Quantitative Results and Respondent Comments

### Operational Staffing Changes – Quantitative Results



### Operational Staffing Changes – Comments

#### Broker Dealer Comments on Operational Staffing (4 responses)

We already have a staff dedicated to maintaining data integrity.

Undetermined at this point.

Unsure of full impact at this time as we are still working through automation project requirements which will minimize manual exceptions handled today.

We are currently evaluating our preliminary staffing needs which are subject to change based on final IRS regulations which may dictate changes to requirements and processes.

#### Cost Basis Solution Provider Comments on Operational Staffing (1 response)

This question does not directly apply to us as a vendor. However, we have significant experience regarding the current broad divergence in the proper reporting of corporate actions and wash sales accuracy. The tax penalty risks of the new cost basis law and the resulting need for more tax accurate processing of corporate actions and wash sales for Form 1099-B reporting purposes will undoubtedly require brokers to employ additional staff or outside services to adequately address such risks.

#### Service Bureau Comments on Operational Staffing (4 responses)

This legislation makes cost basis accounting a books and records activity and will require increased staffing. We expect that a firm with 200,000 accounts or more will require a minimum of 1 FTE to support this function. We estimate that larger firms will require one

	additional FTE per 500,000 accounts.
	We will add personnel if necessary to meet its maintenance obligations for Cost Basis. However it is not anticipated that this would be a significant impact.
	No increase at the moment due to the freeze but may be increased once the freeze is lifted.
	Not sure yet.
<b>Transfer Agent Comments on Operational Staffing (1 response)</b>	
	Estimate of 25% or less, but dependent on reliability of new programming and how automated the new process will actually be.



## Appendix 10: Business sponsor of Cost Basis Initiative at firm (Q10) – Respondent Comments

Banking Institution/Custodian Comments on Business Sponsor (2 Responses)	
	Not yet determined
	SVP, Financial Services Operations Mgr
Broker Dealer Comments on Business Sponsor (18 Responses)	
	C-Level
	SVP
	Managing Director
	VP security operations
	SVP
	Senior and middle mgt- Operations
	Business line heads
	Managing Director
	Executive Management
	Managing Director - Tax.
	Senior Management Team
	This is a standalone project, owner is shared between tax and processing
	Operations personnel
	First VP
	SVP
Cost Basis Solution Provider Comments on Business Sponsor (2 Responses)	
	As a vendor, our cost basis reporting is EVP sponsored.
	SVP
Mutual Fund Comments on Business Sponsor (1 Response)	
	Director
Service Bureau Comments on Business Sponsor (6 Responses)	
	C-level
	This is a strategic project for our service bureau. We consider this project mandatory.
	Senior VP
	C-Level
	C-level
	SVP
Transfer Agent Comments on Business Sponsor (8 Responses)	
	President/Owner
	MD
	Myself, as First VP
	Manager
	Shareholder Services Manager
	SVP
	Senior Officer

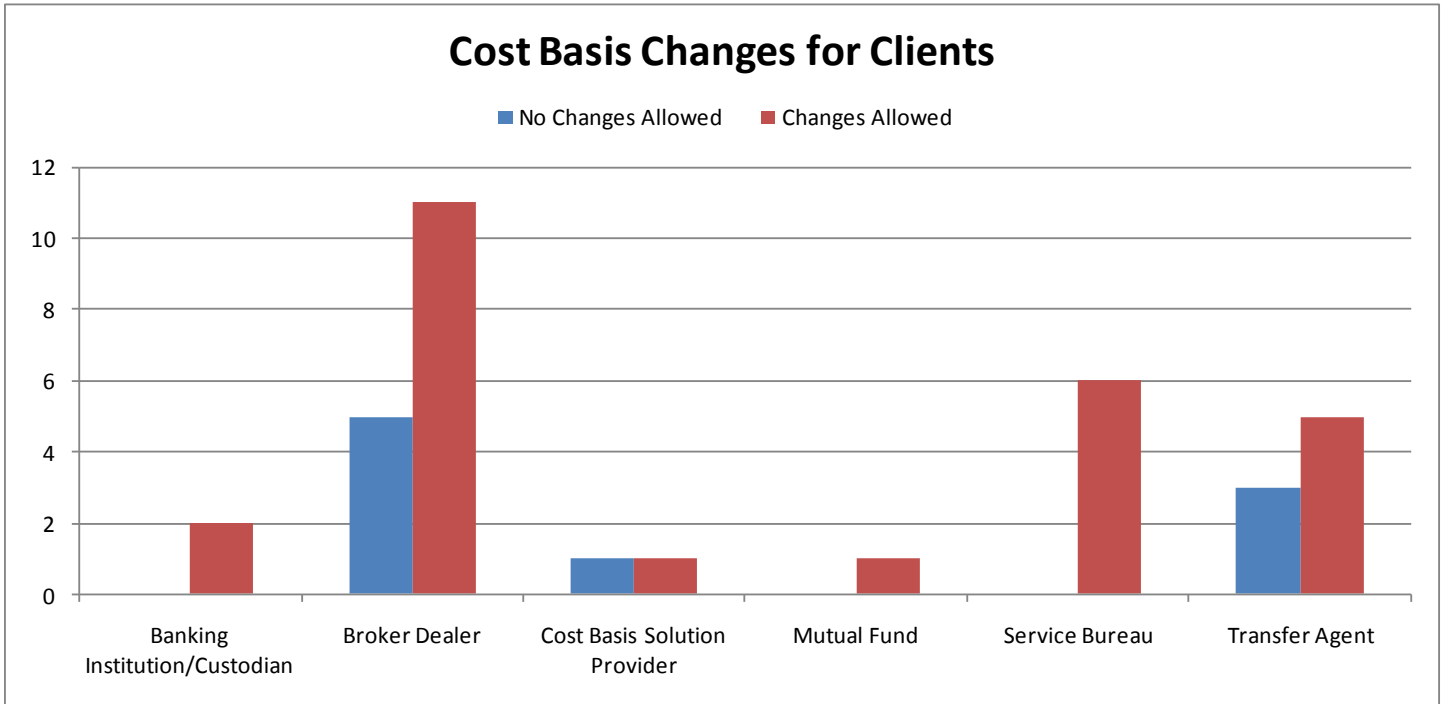
## Appendix 11: What department or departments are currently involved in the process (Q11) – Respondent Comments

Banking Institution/Custodian – Departments Involved (2 Responses)	
	Global Tax Services and Tax Reporting
	Wealth Management
Broker Dealer – Departments Involved (17 Responses)	
	All levels
	Operations, Reporting Platform, Client Experience, IT, Marketing Finance, Risk Management, Legal, Compliance,
	corporate actions, account transfers, tax, technology
	Portfolio Reporting, Project management, Product management, and IT are the primary areas at this point. From kick off, we have identified many secondary departments that will be impacted as we go forward, from back office operations areas such as corporate actions, income processing, custody, ACATS, mass account transfer, as well as our trading interfaces and security master setup.
	Cost basis, tax reporting
	Tax Reporting/Cost Basis and IT
	Tax reporting, cost basis reporting, business line heads
	Cost Basis, Corporate Actions, Tax Reporting, Advisory, Statements, Online, Stock Options, Mutual Funds, Operations (Home Office), and other internal application owners.
	Tax Reporting, Tax Lot Accounting, Project Teams, Systems
	Clearing Operations, Tax Department, Service Organization
	Prime Brokerage, Operations
	Product Development, Technology, Operations, Compliance, Corporate Tax Stock Plan Administration and Customer Service
	Tax, IT, Operations, Project Management
	All operational departments, all related IT departments, Web Front-end development teams, project Management office, Product Development and Marketing
	Custody, Margin, Trading, Clearance, ACATS, Non-ACATS, New Account, Tax and performance.
	IS/Operations
	Tax Processing
Cost Basis Solution Provider – Departments Involved (2 Responses)	
	We have dedicated internal technology, development, corporate actions & data, operations and tax compliance teams. All of them are involved in our process and mirror the resources we typically interact with at our prospects or existing customers.
	Infrastructure, architecture, operations, support
Mutual Fund – Departments Involved (1 Response)	
	Tax Reporting/Compliance
Service Bureau – Departments Involved (5 Responses)	
	We have dedicated team that interfaces regularly with business, development and technology groups.
	Product, development, marketing and QA resources
	As a Software provider we do not have brokerage functional departments. We do have a team of Business Analysts that are involved from the business perspective. Other than that group we have software development, PMO, and QA.

	Product Management, Product Development and other SunGard business units.
	Product Development, Project Management
<b>Transfer Agent – Departments Involved (8 Responses)</b>	
	Will be handled by management only.
	Product Management, Tax, Project Management, Call Center, Operations, Account Maintenance, Systems,
	Mine and our IT Department.
	Operations
	Shareholder Services
	Operations, IT, Tax, Compliance and Regulatory
	All
	Transfer agency only. Specifically Tax Reporting, Dealer Services, and Project Management.

## Appendix 12: Giving Clients the Ability to Make Future Cost Basis Changes (Q2) – Quantitative Results and Respondent Comments

### Allowing Client Changes – Quantitative Results



### Allowing Client Changes – Comments

#### Banking Institution/Custodian (2 Responses)

Not sure yet.

Client will be allowed to choose methodologies upon account opening or to change as long as the original choice is not average cost. We do not allow going from average cost to another method.

#### Broker Dealer (14 Responses)

To be determined

Clients will be able to change default accounting method (i.e. identified lot or "high cost" to FIFO). At this time, we don't anticipate allowing changes from or to average cost. Clients cannot alter data tracked in our system. Clients can update data that is missing or was previously manually adjusted.

certificate deposits

Undetermined at this point.

Changes will be allowed if we can determine that the change should be made. Operations will take the info from the customer and evaluate whether or not to make the change

For open tax lots that have no original basis (the result of an ACAT-with a non-member of CBRS), we will accept original confirm from prior firm.

Same procedures as are currently in place.

If the security is purchased at our firm, no changes will be allowed, since our tax lot system will have all adequate data including corporate changes. Clients will not have direct access to change cost basis on covered securities or uncovered. For covered securities, clients will be required to submit evidencing documents (Trade Confirm, contra-firm statement, etc) detailing and validating cost basis change.

	Documents to be reviewed and approved by Cost Basis central team. For uncovered security, clients may reach out to their Financial Advisors as well, but will not require providing validating documentation.
	Changes will still be allowed are pre-effective lots. We will probably still allow updates in the case of inherited or gifts, we need to determine how to flag them to allow updates.
	All changes to cost basis are TBD depending on legislation direction
	Provide updates to Operations before integrating into systems
	Changes will only be allowed to pre effective positions only
	Users will be able to update cost basis on pre-effective date lots that were transferred to the account or that were purchased prior to the development of the system and post effective date shares may be updated to the extent allowable by IRS regulation.
	Clients will have to come to firm and firm will make changes
<b>Cost Basis Solution Provider (2 Responses)</b>	
	Because cost basis reporting results in tax penalty to risk to brokers for incorrect information, the ability to make cost basis changes should be carefully restricted. Our service includes an administrative dashboard/console that permits only authorized persons to view or make changes and includes an audit log to facilitate subsequent review of any changes made.
	It's a decision for our client firms, but client changes to cost basis will be limited to pre-effective date lot and, even then, in most cases limited to ACATs.
<b>Mutual Fund (1 Response)</b>	
	Changes will be dependent on regulatory changes and record keeping system capabilities
<b>Service Bureau (6 Responses)</b>	
	System will be flexible to allow our B/D clients to structure their procedures as they wish.
	See comments on question #1. Additional changes may be required depending on IRS' final rules specifically regarding the length of time that changes will be allowed.
	Clients have the ability to make changes regarding inputs and outputs as well as exception rules and mapping changes.
	As a Service Bureau, we will permit its clients to determine the level of changes ultimate beneficial owner customers of theirs will be permitted to make.
	Still TBD (based on upcoming guidelines).
	Changes are controlled through entitlements and active, point of entry vetting. We will only allow changes when appropriate, but have not fully determined what the rules and guidance on this will be.
<b>Transfer Agent (6 Responses)</b>	
	I do not quite understand this question. A cost is a cost, no matter what.
	1) Schedule provided by issuer at the time of issuance. 2) Basis will be carried forward and updated at the time of transfer through the completion of a sellers rep letter amended to cover cost basis and / or 3) Basis will be updated as represented by the broker that presents the transfer.
	We are an issuer-agent. Our shareholders can advise us of cost basis information and we can adjust their account record accordingly.
	Changes would only be allowed on post effective shares
	not yet finalized
	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.)

## Appendix 13: Areas of Preparation Impacted by Lack of Final IRS Regulations (Q6) – Quantitative Results and Respondent Comments

### Areas of Preparation Impacted by Lack of Final IRS Regulations – Quantitative Results

Areas of Preparation Impacted by Lack of Final Regulations	Banking Institution/ Custodian	Broker Dealer	Cost Basis Solution Provider	Mutual Fund	Service Bureau	Transfer Agent
1099-B design	50%	68%	50%	0%	67%	63%
Methodology Selection and Frequency of Changes	100%	74%	100%	100%	83%	50%
DRIP Programs	100%	68%	50%	100%	83%	25%
Wash Sales	50%	58%	0%	100%	17%	25%
Definition of Identical Securities	50%	53%	0%	0%	33%	13%
Reporting Dates for Non-Defined Categories	50%	74%	100%	100%	67%	13%
Short Sales	50%	32%	0%	0%	83%	0%
Option Transactions	50%	42%	50%	0%	83%	13%
Mutual Funds	50%	47%	0%	100%	50%	25%
Account Transfers	50%	68%	100%	100%	100%	63%
Issuer communications	50%	74%	100%	100%	83%	13%
<b>Total # of Firms</b>	<b>2</b>	<b>19</b>	<b>2</b>	<b>1</b>	<b>6</b>	<b>8</b>

### Areas of Preparation Impacted by Lack of Final IRS Regulations – Comments

#### Broker Dealer Comments on Issues Resulting From Lack Of Final Regulations (9 Responses)

	A number of initiatives are on hold until regulations are released
	Concerned about issues that may create big system changes requiring long lead times (i.e. bifurcating average cost holdings).
	We are awaiting specific guidelines to be released by the IRS, so that we have set criteria that must be met by either a third party or an in house solution.
	Our biggest area of concern is presentation to the client and the associated reporting layouts required for the IRS transmission.
	Concern: Will the IRS also be ready to take in millions of industry tax lot records and subsequently reconcile them with client schedule "D" tax records? Since each firm will now have to begin passing basis at the individual tax lot level, this in my view potentially could be a bottleneck of information paralysis. There's a great deal of work and expense in building out existing tax lot systems or contracting/outsourcing requirements with 3rd party vendors.
	Account Transfers is very broad term. ACATs seem to be okay, but certificated transfers will be a problem. They will require much programming for a small universe. Integrating the cost basis system with the tax reporting modules will be a considerable undertaking.
	*Receipt of positions through non-ACAT's, restricted stock awards, etc - how will basis be delivered? *How/when/number of times a client can change their methodology
	Other areas of concern are Stock Plan Administration and the treatment of individual stock plan transaction, will the issuing company be required to provide cost basis detail. If they don't what is our exposure?
	None. Deferring work on any activity, process or calculation where we feel regulations are needed in

	order to completely understand what is required; ;
<b>Cost Basis Solution Provider Comment on Issues Resulting From Lack Of Final Regulations (1 Response)</b>	
	The items marked are all items where additional guidance from the IRS is necessary in order for brokers and vendors to prepare. We have submitted detailed comments to the IRS on these items.
<b>Service Bureau Comments on Issues Resulting From Lack Of Final Regulations (5 Responses)</b>	
	Lack of ability to make many definitive programming changes.
	<p>Yes. Some examples are:</p> <ul style="list-style-type: none"> <li>- Cost basis transfer rules for DVP accounts.;</li> <li>- What will be lock down period for adjustments to cost basis;</li> <li>- Requirements for adjustments to cost basis for positions no longer held by the broker due to post year end income reallocation;</li> <li>- Wash sale rules for substantially identical securities;</li> </ul> <p>In order to proceed with our work on this project, we have made assumptions about the final rules on many of these topics. The particular requirements we have identified as causing us trouble in this context are those that pose the greatest risk if we have assumed wrong and our assessment of the likelihood of a different outcome. For example, with respect to wash sales, we are assuming a very broad definition of wash sale and no exceptions to the reporting requirement (i.e. no “diminimus” limit). If the final rules provide for exceptions or narrow the definition of wash sale, we will have some work to do narrow the scope of our project, but that change does not represent a high risk to the project. In contract, Transfers requirement and the design of the 1099 do represent large risks. For Transfers, we have assumed that the delivering firm will be required to deliver both the cost basis at the time of the transfer and any subsequent updates (e.g. a change to basis resulting from post-year end income reallocation). If the IRS rules do not require the deliverer to supply updates to cost basis post-transfer, we will have to design a process that can apply income reallocation updates to transferred tax lots. That will be a significant new requirement and presents substantial risk to the project.</p>
	Clarification around IRS rules, exchange of data between funds, TA's, brokerage firms
	See the FIF Issues list. There are more than 20 awaiting IRS decisions. We also have many others in addition to the list.
	We can't determine final approach as we still need more information from the IRS and other regulators.