



PREPARING FOR THE NEXT WAVE OF COST BASIS REGULATIONS

Presentation Agenda

- Background & Overview
- Adjustments to basis
- System Changes / Implications
- Changes to 1099 and other 2011 tax forms
- Questions & Answers

Background

- The Emergency Economic Stabilization Act of 2008 (a.k.a. TARP) requires custodians to report adjusted Cost Basis information on the 1099-B
 - Purpose is to improve tax compliance as well as reduce paperwork and recordkeeping burden for investors.
- The legislation applies to securities acquired on or after the effective date:
 - January 1, 2011 for Equities
 - January 1, 2012 for Mutual Funds, ETFs and Dividend Reinvestment Plans (“DRIPs”)
 - January 1, 2013 for all other securities (Fixed Income, Options, Other Securities TBD)

Overview of New Regulations

- Lots purchased after effective date are ‘covered’ by the new regulations
- Custodian is required to report basis on 1099 and to IRS
 - Must report *adjusted* gain/loss and whether it is long or short-term for covered lots
 - Single sale might result in 4 1099-B records (long and short-term gain / loss for both covered and noncovered lots)
 - Noncovered lots are not reported to the IRS
 - Tax Payer will have up to 6 categories of transactions to report – including long and short-term gains where no 1099 was received
- Lot selection is locked in at time of sale
 - Can not wait until April to adjust prior year’s tax lots

Adjustments to Basis

- Initial basis calculated at time of purchase
- Adjustments for corporate actions (spinoffs, mergers, splits, return of capital, etc.)
- Adjustments for wash sales:
 - Required adjustments limited to same account / same security
 - Account holders are still responsible for traditional wash sale rules (across accounts, similar securities)
- Adjustments may be made at any time and may involve lots that have already been sold
 - For example, reclassification of Dividend to Return of Capital may require basis adjustments for lots sold in the prior tax year

Transferred Securities

- Custodians are required to create basis 'transfer statement' for covered securities whenever securities are delivered
- ACAT cost basis system significantly modified to create CBRS (Cost Basis Reporting System)
- Once implemented, basis will be transferred for all lots where available
 - Covered status will be maintained
 - If covered prior to transfer, lot is still covered at new custodian
 - Minor exceptions due to differences in security classifications
- Transfer Statement requirement 'waived' for 2011

Noncovered Securities Disguised as Equities

- Debt securities not covered until 2013
 - e.g. GJM, GKM, PYV
- Many ETNs are prepaid forward contracts or other derivatives (covered date TBD)
 - e.g. Barclay's commodity ETNs
- Grantor Trusts (covered date TBD)
 - e.g. GLD, SLV, Currencyshares
- MLPs (covered date TBD)
 - e.g. EMP, EPD
 - KKR and BX are partnerships
 - Includes many Proshares trusts (e.g. AGQ, UGL)

Implications for Clients

- Little or no noticeable change for many customers
 - Folio Institutional will still offer:
 - lot selection tools
 - lot tracking
 - gain / loss reports & downloads
 - adjustments for corporate actions, etc.
 - Advisors / Clients will NOT be allowed to edit covered tax lots
 - Will be allowed to edit both open and closed noncovered lots
- Implications for lots maintained outside of the folio system (shadow lot tracking)
 - Will need adjustments to match custodian lots
- Could result in more amended 1099s
 - Reclassifications will require re-export of capital gains transactions. Not just a change to 1099-DIV

System Changes

- Tax lots will be relieved at the account level. No longer Folio by Folio
 - Affects accounts with the same security in 2 or more Folios
 - Only affects tax lots, NOT holdings
 - Gives client the most advantageous inventory relief selection
 - Holdings page will no longer show gain/loss at the Folio level
 - Download center will no longer support Folio level uploads
- Advisor / Customer are no longer be able to edit 'covered' tax lots
 - Still able to edit noncovered lots
 - Open or closed lots
- Download center will support new Schedule-D and form 8949
- Support average cost lots for RICs starting in 2012
 - No advantage to using average cost

New / Modified IRS Forms

- Additional Fields on Form 1099-B
- ST or LT indicator – Box 8
 - Noncovered security checkbox – Box 6
 - Cost or other basis – Box 3
 - Wash sale loss disallowed – Box 5
- Gain and Loss Transactions Moved from Schedule-D to Form 8949 (new form)
 - Schedule-D is used to report totals
 - 6 different categories of capital gains / losses

IRS Form 1099

7979 VOID CORRECTED

PAYER'S name, street address, city, state, ZIP code, and telephone no.		1a Date of sale or exchange	OMB No. 1545-0715 2011 Form 1099-B		
		1b Date of acquisition			
		2 Stocks, bonds, etc.		Reported to IRS } <input type="checkbox"/> Gross proceeds <input type="checkbox"/> Gross proceeds less commissions and option premiums	
		\$			
PAYER'S federal identification number	RECIPIENT'S identification number	3 Cost or other basis	4 Federal income tax withheld	Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the 2011 General Instructions for Certain Information Returns.	
		\$	\$		
RECIPIENT'S name		5 Wash sale loss disallowed	6 Check if a noncovered security		
Street address (including apt. no.)		\$	<input type="checkbox"/>		
City, state, and ZIP code		7	8 Type of gain or loss Short-term <input type="checkbox"/> Long-term <input type="checkbox"/>		
Account number (see instructions)	2nd TIN not	10 Profit or (loss) realized in 2011 on closed contracts	11 Unrealized profit or (loss) on open contracts—12/31/2010	14 Bartering	
	<input type="checkbox"/>	\$	\$	\$	
CUSIP number		12 Unrealized profit or (loss) on open contracts—12/31/2011	13 Aggregate profit or (loss) on contracts	15 Check if loss not allowed based on amount in box 2 <input type="checkbox"/>	
		\$	\$		

Form **1099-B**
Cat. No. 14411V
Department of the Treasury - Internal Revenue Service

Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page

**SCHEDULE D
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)

Capital Gains and Losses

▶ Attach to Form 1040 or Form 1040NR. ▶ See Instructions for Schedule D (Form 1040).
▶ Use Form 8949 to list your transactions for lines 1, 2, 3, 8, 9, and 10.

OMB No. 1545-0074

2011
Attachment
Sequence No. **12**

Name(s) shown on return

Your social security number

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

Complete Form 8949 before completing line 1, 2, or 3.

This form may be easier to complete if you round off cents to whole dollars.

	(e) Sales price from Form(s) 8949, line 2, column (e)	(f) Cost or other basis from Form(s) 8949, line 2, column (f)	(g) Adjustments to gain or loss from Form(s) 8949, line 2, column (g)	(h) Gain or (loss) Combine columns (e), (f), and (g)
1 Short-term totals from all Forms 8949 with box A checked in Part I		()		
2 Short-term totals from all Forms 8949 with box B checked in Part I		()		
3 Short-term totals from all Forms 8949 with box C checked in Part I		()		
4 Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824				4
5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1				5
6 Short-term capital loss carryover. Enter the amount, if any, from line 8 of your Capital Loss Carryover Worksheet in the instructions				6 ()
7 Net short-term capital gain or (loss). Combine lines 1 through 6 in column (h). If you have any long-term capital gains or losses, go to Part II below. Otherwise, go to Part III on the back				7

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

Form 8949

Form **8949**

Department of the Treasury
Internal Revenue Service (99)

Sales and Other Dispositions of Capital Assets

- ▶ See Instructions for Schedule D (Form 1040).
- ▶ For more information about Form 8949, see www.irs.gov/form8949
- ▶ Attach to Schedule D to list your transactions for lines 1, 2, 3, 8, 9, and 10.

OMB No. 1545-0074

2011
Attachment
Sequence No. **12A**

Name(s) shown on return

Your social security number

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

Note: You must check one of the boxes below. Complete a *separate* Form 8949, page 1, for each box that is checked.

***Caution.** Do not complete column (b) or (g) until you have read the instructions for those columns (see the Instructions for Schedule D (Form 1040)). Columns (b) and (g) do not apply for most transactions and should generally be left blank.

- (A) Short-term transactions reported on Form 1099-B with basis reported to the IRS
 (B) Short-term transactions reported on Form 1099-B but basis not reported to the IRS
 (C) Short-term transactions for which you cannot check box A or B

	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Code, if any, for column (g)*	(c) Date acquired (Mo., day, yr.)	(d) Date sold (Mo., day, yr.)	(e) Sales price (see instructions)	(f) Cost or other basis (see instructions)	(g) Adjustments to gain or loss, if any*
1							

Changes to Our 1099 for 2011 Tax Year

- First page of 1099 (consolidated 1099) has very few changes
- Major redesign of 1099-B Supplemental Section
 - Designed to facilitate entering data on Schedule-D and Form 8949
 - Includes information that is NOT reported to the IRS in order to assist taxpayer
- The IRS has requested roll up of 1099-B transactions for an account by CUSIP, Date, Term and Covered Indicator
 - Should we show detailed tax lots on 1099 or just the roll up?

1099 Gain / Loss Summary

Brokerage Firm, LLC	Supplemental Information	Page 9 of 25 Account 4444444444
2011		

SUMMARY OF GAINS AND LOSSES

These amounts are for informational purposes. Cost basis totals include only amounts that were available to us. Any amounts shown with an undetermined term must be reviewed to establish whether the gains/losses are short-term or long-term. Refer to the appropriate detail schedule on the following pages to ensure that you consider all relevant items and to determine if the cost basis figures are correct for your tax return.

Term	Category	Detail Schedule	Proceeds	Cost Basis	Net Capital Gain/Loss
Short	A (basis reported to the IRS)	Form 1099-B	141,888.09	147,165.11	5,277.02
	B (basis NOT reported to the IRS)	Form 1099-B	139,584.74	134,537.42	5,047.32
	C (Form 1099-B not received)	Proceeds not reported to IRS	13,978.95	14,188.33	-209.38
		Total	295,451.78	295,890.86	10,374.96
Long	A (basis reported to the IRS)	Form 1099-B	97,500.00	72,350.00	25,150.00
	B (basis NOT reported to the IRS)	Form 1099-B	243,989.29	234,830.69	10,349.55
	C (Form 1099-B not received)	Proceeds not reported to IRS	7,125.00	5,400.00	1,725.00
		Total	348,614.29	312,580.69	37,224.55
Undetermined	B (basis NOT reported to the IRS)	Form 1099-B	263,472.55	0.00	0.00
	C (Form 1099-B not received)	Proceeds not reported to IRS	0.00	0.00	0.00
		Total	263,472.55	0.00	0.00

SUMMARY OF NON REPORTED INCOME, FEES, EXPENSES AND EXPENDITURES

The items in this section are not reported to the IRS. They are presented here for your reference when preparing your tax return.

Interest Payments and Other Adjustments		Capital Expenditures	
Taxable accrued interest	0.00	Securities purchased	0.00
Tax exempt accrued interest	0.00	Installment payments	0.00
Tax exempt accrued interest	0.00		
Taxable accrued interest paid on OID bonds	0.00	Fees and Payments Received	
Taxable non-qualified interest received	0.00	Deemed premium	0.00
Taxable non-qualified interest paid	0.00	Organizational expense	0.00
Shortfall of projected interest on contingent payment debt	0.00	Income accrual - UIT	0.00
		Miscellaneous fees	0.00
		Basis adjustments	0.00
		Tax-exempt investment expense	0.00
Other Receipts		Options Transactions	
Partnership distributions	0.00	Sales	0.00
Foreign tax paid - partnership distributions	0.00	Short sales	0.00
Return of principal distributions	0.00	Purchases	0.00
Deferred dividend	0.00	Purchases to close	0.00
Expenses			
Margin interest	0.00		
Dividend paid - short position	0.00		
Interest paid - short position	0.00		
Non reportable distribution expense	0.00		
Other expenses	0.00		
Severance tax	0.00		

1099 Gain / Loss Details

Brokerage Firm, LLC	Proceeds from Broker and Barter Exchange Transactions	Page 11 of 25
2011 1099-B*	(continued)	Account 4444444444
		OMB No. 1545-0715

8 - **UNDETERMINED TERM GAINS AND LOSSES - Category B** (Cost basis is NOT reported to the IRS.) 6 - Tax lots: NONCOVERED**
 Consult your investment records for the date of acquisition to determine whether the transactions in this section are long term or short term.

9 - Description / CUSIP / Symbol		These columns are not reported to the IRS for category B			
1a - Date of sale or exchange	Quantity	2 - Proceeds of stock, bonds, etc.†	Date of acquisition	Cost or other basis	Gain or loss Additional information
ISHARES SILVER TRUST / CUSIP: 48428Q109					
01/31/11		0.67	N/A	...	... Principal payment** ... Cost basis allocation factor = 0.00036373
02/28/11		0.73	N/A	...	... Principal payment** ... Cost basis allocation factor = 0.00037502
03/31/11		0.80	N/A	...	... Principal payment** ... Cost basis allocation factor = 0.00041816
04/30/11		0.76	N/A	...	... Principal payment** ... Cost basis allocation factor = 0.00042230
05/31/11		0.67	N/A	...	... Principal payment** ... Cost basis allocation factor = 0.00037243
06/30/11		0.69	N/A	...	... Principal payment** ... Cost basis allocation factor = 0.00044010
	Security total:	4.72		0.00	0.00
Subtotal - Unknown term (Category B)		263,472.55		0.00	0.00

8 - **SHORT-TERM GAINS AND LOSSES - Category A** (Cost basis is reported to the IRS.) 6 - Tax lots: COVERED

9 - Description / CUSIP / Symbol		These columns are not reported to the IRS for category A			
1a - Date of sale or exchange	Quantity	2 - Proceeds of stock, bonds, etc.†	1b - Date of acquisition	3 - Cost or other basis	Gain or loss Additional information
AKAMAI TECHNOLOGIES / CUSIP: 00971T101					
08/23/11	700.000	9,432.58	01/16/11	9,877.00	-444.42 Buy to close
08/23/11	200.000	2,584.67	01/16/11	2,822.00	-237.13 Buy to close
	Security total:	12,017.45		12,699.00	-681.55
ALLIANCE CAPITAL MANAGEMENT CALL / CUSIP: 123456789					
02/24/11	5.000	140.99	01/16/11	0.00	140.99 Option buy to close -call

Aggregate into one record.

VARIOUS

*This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.

**Where the box 6 value is NONCOVERED, any amounts under the headings Date of acquisition, Cost or other basis or labeled Wash sale loss disallowed are provided for your reference and are not reported to the IRS. All other amounts presented in numbered columns or rows for those items are reported to the IRS as indicated above.

†Gross proceeds less commissions and option premiums.

For More Information

Visit the Internal Revenue Service online:

www.irs.gov

- *Folio Institutional does not provide tax advice. You should consult a tax professional to understand the tax consequences of investment decisions.*