Understanding the New Cost Basis Reporting Regulations

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Executive Summary

The Emergency Economic Stabilization Act was signed into law in October 2008, requiring participants in the financial services industry to provide cost basis and detailed gain or loss information for the first time to investors on Internal Revenue Service (IRS) 1099-B forms. The new tax rules will be phased in over time, beginning with stocks in January 2011, mutual funds and dividend reinvestment plans (DRPs) in January 2012, and all other securities in January 2013 (or perhaps even later). With final government tax regulations not expected until later in 2010, firms will have a short time to finally prepare for the law's first effective date.[1]

Cost basis is the original purchase price of a security, plus fees and commissions, adjusted for a number of factors, such as corporate actions (e.g., stock splits and mergers), wash sales and adjustments to dividends. The complexities of calculating adjusted cost basis is a key concern of industry participants responsible for this new Treasury Department and IRS requirement.

Affected firms must prepare to comply with new rules or risk potential penalties. They must be prepared to, among other actions, record cost basis of acquired securities for tax purposes, provide investors with the ability to elect and change lot selection methods, differentiate reporting and processing of covered and uncovered securities, calculate and tax report certain wash sales, change timing of short sale reporting and backup withholding, and monitor and determine the effect of corporate actions on the cost basis of security positions. All key industry participants will be impacted in different ways, including securities clearing organizations, brokers and broker-dealers, custodians, issuers/transfer agents, banks, (corporate stock) plan administrators, mutual fund companies, The Depository Trust & Clearing Corporation (DTCC), investors, investment professionals and registered investment advisors.[2]

The real challenge facing certain U.S. financial services firms is managing complex securities transaction types, each of which comes with its own set of issues and

[1] It is anticipated that final tax regulations covering short sales may be effective as early as the latter part of 2010 with the bulk of the regulations being phased in beginning January 1, 2011.

[2] This guide defines brokers as firms required to provide Form 1099-B reporting.

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implications. Wash sale calculations, for example, will require cost basis and holding period adjustments that are often quite detailed. Short sales will be required to be reported during the tax year the sales are closed, not the year they are opened. Mutual funds and DRPs will be allowed to utilize average cost basis method, with first-in, first-out (FIFO) provided as a default disposition method for these average cost accounts.

Moreover, financial services firms may elect to consolidate pre-2012 and post-2011 positions into a special single account election or bifurcate the positions into covered and uncovered shares for accounts utilizing cost basis.

In addition, the IRS has released a draft of the revised Form 1099-B (to be issued for 2011) that includes several new boxes for cost basis and gain or loss reporting.

For many firms, the responsibility for updating systems to ensure compliance with new regulations is being assumed by outsourcing partners like Pershing LLC, which has developed a comprehensive cost basis reporting strategy to ensure its customers are properly prepared by the first effective date of January 1, 2011. Pershing will continue to keep its customers apprised of updates to its systems as final regulations for cost basis requirements are published later this year.[3]

Introduction

The IRS has contended that vital tax dollars are lost every year as a result of taxpayers incorrectly reporting their capital gains and losses on the securities they have purchased. To minimize this, cost basis reporting was included in the Emergency Economic Stabilization Act of 2008 (the Act), which was passed by Congress and enacted into law on October 3, 2008. The Act essentially requires certain U.S. financial services firms to provide cost basis and detailed gain or loss reporting for the first time.

> This guide focuses on the following types of financial services firms, which will be affected by the new law. These include, but are not limited to, securities clearing organizations, brokers and broker-dealers, banks, mutual fund companies, custodians, issuers/transfer agents, (corporate stock) plan administrators, investment professional firms and registered investment advisory firms.

Beginning in 2012 for 2011 tax year reporting, certain U.S. financial services firms will be required to report capital gain and loss, holding period information and certain wash sale information on investors' Form 1099-B for covered shares of stock.

[3] This guide is an overview of the cost basis legislation enacted in the Emergency Economic Stabilization Act and the proposed regulations issued December 16, 2009, which do not contain guidance on debt obligations, options and other securities subject to the new rules at January 1, 2013 or later. Please note the proposed regulations may be changed by the forthcoming final regulations, and the IRS's draft of the revised 2011 Form 1099-B was issued without instructions, so only certain conclusions can be drawn at this time from its format. Given this, readers of the guide should understand the final regulations and Form 1099-B instructions will likely affect the content of the guide. This guide and any tax-related statements within were not intended nor written to be used by anyone for the purpose of avoiding tax or penalties. Pershing LLC does not provide tax or legal advice. Please consult your own tax advisor.

Proposed regulations for the new cost basis reporting law were released on December 16, 2009, later than anticipated and final regulations are not expected until some time later in 2010. This gives industry participants just a few months to fully prepare for the law's first effective date of January 1, 2011—aside from an earlier effective date for short sale compliance, which may become effective when final regulations are issued. Without proper education and systems upgrades, the concern is that many firms will not be ready for their new responsibilities that will come with the change.

Cost Basis 101—A Brief Description

Before understanding new reporting requirements that will begin to take effect in 2011, a basic understanding of cost basis is necessary.

At its most basic level, cost basis is the original purchase price of a security, plus fees and commissions of covered securities (that is, securities acquired on or after the applicable effective date, as opposed to uncovered securities). When an individual sells a security today, brokers, including securities clearing organizations, such as Pershing, will report the gross proceeds of the sale. Beginning in 2012 for 2011 tax reporting, in addition to reporting gross proceeds, certain U.S. financial organizations will be required to report the original (or the adjusted) cost (the cost basis of the security sold), the gain or loss on the sale, whether the gain or loss is long-term or short-term and whether any reported loss is disallowed due to the special application of the wash sale rules. Cost basis may be adjusted for a number of factors, including corporate actions (such as stock splits and mergers), wash sales and dividend adjustments, and the firm generally will be required to report the adjusted cost for all sales. The potential complexities around calculating cost basis on an adjusted basis are among the challenges presented by the new tax rules.

The following is a breakdown of some of the basic steps and key factors related to calculating adjusted cost basis:

Steps	Key Factors/Issues
Determine Original Cost Basis	– If purchased: Price paid plus costs – If acquired by gift: Carry over basis or the fair market value on the date of the gift – If inherited: Value is provided by the estate representative
Adjust for Corporate Actions	– Includes mergers, acquisitions, spinoffs, stock rights, splits and dividends – Voluntary corporate actions and mergers should be handled at account level – Complete data is essential, including for foreign securities
Adjust for Wash Sales (or Short Sales)	– Wash sales: Tax sub-lots must be created and tracked and holding period adjusted – Short sales: Complex and challenging to accurately account and report
Determine Gain/Loss	– Must track and report the amount and character of gain/loss (and disallowed loss due to the special application of the wash sale rules) for all covered securities sold – Separate shares by purchase dates (if purchased prior to new effective dates except where the single account election is made for mutual funds and DRPs) – Report to IRS and investors (on Form 1099-B)

The Emergency Economic Stabilization Act of 2008—Proposed Cost Basis Reporting Regulations

Under the new tax rules, certain U.S. financial services firms will be required to report investors' cost basis when securities are sold. Currently, firms are only required to report gross proceeds for such transactions. Under the legislation, firms will not only have to report cost basis for the covered securities sold, but also whether the sales are short-term gains or losses—for holdings of a year or less—or long-term gains or losses. Long-term gains are taxed at capital gains tax rates, while short-term gains are taxed at higher ordinary income tax rates.

Proposed cost basis tax regulations are currently scheduled to be phased in over three years. Targeted effective dates for which cost basis must be reported are as follows:

Type	Description	Effective Date*
Stocks	Corporate stock	January 1, 2011
Mutual Funds	All mutual fund shares or stock eligible for dividend DRPs	January 1, 2012
Other securities	Other types of securities, principally debt securities and options	January 1, 2013 (or later)

* Cost basis reporting will be for securities purchased on or after the above dates except for mutual funds or DRPs for which the single account election is made.

The IRS has solicited comments on the proposed regulations, and final regulations are not expected to be published until later in 2010. Assuming effective dates remain the same—and no indication has been given that they will change—many industry participants are concerned about the brief timeline to appropriately prepare themselves for new reporting requirements.

The Impact to the Financial Services Industry

The new tax rules will impact all participants in the financial services industry that issue Form 1099-B. This principally includes securities clearing organizations, brokers, banks, custodians and mutual funds. (Other financial services industry participants, such as (corporate stock) plan administrators and transfer agents, will be required to issue transfer statements under the new tax rules reporting the transfer of covered and uncovered securities, but not Form 1099-B tax reports.) Many such firms have been working to overhaul their information gathering and reporting capabilities to ensure they comply with the new tax rules by the first effective date of January 1, 2011. In addition, new investor communications and documentation procedures must be created to support the required functionality.[4]

[4] Pershing LLC is currently responsible and will continue to be responsible for Form 1099-B reporting and transfer statements for all U.S. fully disclosed brokerage accounts.

Some of the specific actions Pershing will be prepared to perform include:

- Allowing investors the ability to select tax lots at time of trade and up to and including settlement date
- Notifying investors of the tax lots to be disposed
- Providing investors with the ability to select and change their account methodology of disposing of tax lots
- Differentiating processing of covered and uncovered securities, DRPs and non-DRPs
- Making extensive changes to Form 1099-B reporting format
- Reporting on wash sales including the disallowed amounts
- Reporting short sales at the time the sale is closed rather than when opened
- Tracking corporate actions to adjust cost basis on current positions and positions that have been transferred
- Preparing for future implementation to support other security types

The proposed rules will affect different types of financial services firms in different ways. The following breaks down how key industry participants will be impacted:

DTCC

The DTCC currently owns the Automated Customer Account Transfer (ACAT) service and the Cost Basis Reporting Service (CBRS). With the new legislation, DTCC has been challenged by the industry to expand the CBRS beyond the ACAT service and become the central hub for passing on cost basis. Currently, the DTCC's CBRS system is limited to passing cost basis on security movements within the ACAT system.

Brokers and Securities Clearing Organizations including Pershing

Pershing already utilizes the CBRS system and will be modifying their existing systems to be compliant with the regulations. Other brokers must begin to develop cost basis systems for the first time. Either scenario involves completing a great deal of work in a short time. Among the biggest challenges faced by brokers will be integrating with all industry players and all the new and existing cost basis systems.

Issuers and Agents

Issuers and agents currently control all the physical certificates and maintain direct registration accounts (DRS) for millions of investors. In 2011, they will be required to maintain cost basis for the first time and pass that on to the executing firm.

Banks

Banks typically transfer accounts outside of the ACAT service. When the new legislation becomes effective, banks will be required to also provide cost basis reporting information and will likely look to a more automated method.

(Corporate Stock) Plan Administrators

When companies issue stock as compensation, Pershing has typically relied on the recipient of the compensation to provide the cost basis. With the new legislation, many plan administrators will have to develop ways to calculate cost basis and pass it along with the securities.

Mutual Fund Companies

Although mutual fund companies are not subject to the cost basis rules in 2011, that changes in 2012, when they will be required to develop a method for maintaining and passing on cost basis information for firms not on the ACAT services.

Investment Professionals and Registered Investment Advisors

Investment professionals and registered investment advisors will be challenged this year and next year to explain a number of nuances of the new legislation, including why some items are subject to cost basis reporting and others are not, why wash sale rules are applied differently for Form 1099-B and tax return reporting purposes, and when short sales are reported.

Investors

Investors will no longer have the luxury of deciding which lots they want to apply to each sale trade at the time they calculate gains and losses on the sold securities. They must decide which lots to apply to a sale generally no later than settlement date, as Pershing will report cost basis for the sold lots on Form 1099-B.

Need-to-Know Information—Complex Transactions

The new law first covers stocks purchased on or after January 1, 2011, by U.S. investors in taxable accounts, whose sales are therefore reportable on Form 1099-B. Securities acquired prior to 2011 are generally exempt from the new cost basis reporting rules, as are securities acquired in retirement accounts or by corporations (except for securities acquired by certain S corporations, which are subject to the new rules for securities acquired on or after December 31, 2011).

Dealing with complex transaction types and ensuring compliance with the new cost basis reporting requirements is a real challenge. Among those are corporate actions, gifts and inheritances, lot relief methods, mutual funds and DRPs, short sales and wash sales, each of which is briefly highlighted on the next page.

Corporate Actions

Corporate actions include taxable and non-taxable events that affect a company's capital structure, such as stock splits, reverse splits, stock dividends, spin-offs, mergers and tender offers. Such activity can affect the basis and holding period of stocks and securities, triggering recognition of gain or loss for the investor. Rules enacted as part of the cost basis legislation will require issuers to report publicly on the quantitative effect of their corporate actions. This will, in turn, require certain U.S. financial organizations to monitor reported information through a potentially manual intensive process. (Note: The IRS has not decided how the issuer corporate action reporting should work, and the reporting rules generally will not apply to foreign issuers.)

Gifts and Inheritances

Securities that are gifted or inherited are generally considered covered shares at the time of transfer. Cost basis for these shares may be determined by special valuation rules. For inherited shares, the legal representative of the estate must provide the date of death or alternate valuation date values as determined for federal estate tax purposes. For gifted shares, the donor's cost basis, in most cases, or the fair market value of the shares on the date of the gift will be used for transfer statement purposes.

Lot Relief Methods

A lot refers to a block of information on the purchase of a security that includes a unique pre-unit date, cost and number of shares that distinguishes it from all other purchases. To compute the adjusted basis of securities sold, the proper lot (or lots) of securities held by the investor must be determined—a process referred to as lot relief. Lot relief methods include FIFO, specific identification of lots, averaging and other various selection methods.

The new tax rules would require firms to utilize FIFO as the default lot selection method for all sales of covered stock unless the investor requests to change from the FIFO method to another permitted and offered lot selection method. Under the cost basis reporting requirements, investors must identify and communicate the lot selection method to be used in connection with sale of stock generally no later than the settlement date (or the time for settlement under SEC rules, if earlier); otherwise, the default lot method must be used to determine cost basis for calculating gain or loss on the sale to be reported on Form 1099-B.

For mutual fund and DRP shares the default lot selection method will apply to covered mutual funds or DRP shares, except where the investor elects the average cost or other permitted methods for such covered shares. In average cost, the lots are disposed of in an FIFO order and the special single account election belongs to certain financial organizations, not the investor.

Mutual Funds and Dividend Reinvestment Plans (DRPs)

Mutual funds and DRPs will be eligible for the average cost basis method. A dividend reinvestment plan does not qualify as a DRP for cost basis reporting purposes unless at least 10 percent of dividends are required to be reinvested. Investors who elect the average cost basis method for either mutual funds or DRP shares will have the option to revoke the election. In certain circumstances, the proposed rules permit the financial organization, not the investor, to make a single account election, which will combine all pre-2012 acquired shares with all post-2011 acquired shares as covered shares for cost basis reporting purposes. If the single account election is not made, the shares acquired before 2012 and those acquired after 2011 will be bifurcated, and split into uncovered and covered shares for cost basis reporting purposes.

Short Sales

A short sale occurs when a borrowed security is sold, and the short position is maintained in the investor's account. Under current rules, short sales are reported for the tax year during which the short sale occurs. When an investor acquires the stock, the short position is closed. Under the proposed regulations, the reporting of the short sale moves to the time when the investor acquires the stock to close the short position and the position is closed. At that point, the short sale becomes reportable on Form 1099-B under the new rules. (Note: The short sale reporting rules become effective for 2010 under the proposed regulations.)

Wash Sales

Under the proposed cost basis reporting rules, a wash sale occurs when a covered security is sold at a loss and an identical security (bearing the same CUSIP) is purchased or acquired in a taxable transaction in the same brokerage account during the 30-day period before or after the sale. In that case, the disallowed loss will be reported on Form 1099-B and used to adjust the cost basis of the reacquired security. Firms will also be required to adjust the holding period of the reacquired securities. Under current tax rules, numerous scenarios can create wash sale events—Pershing estimates there are more than 40 wash sale scenarios. (Note: The rules for reporting wash sale losses on Form 1099-B are more limited than the taxpayer tax return reporting rules for wash sales.)

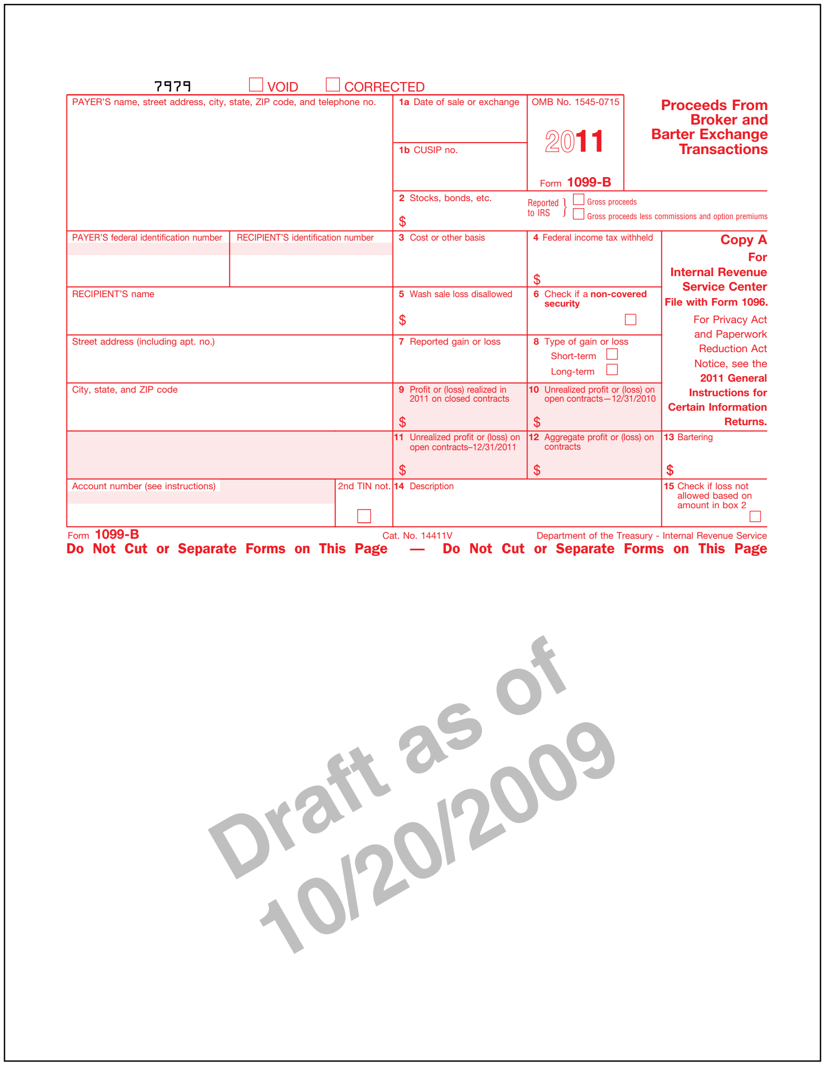
Transaction Types and Implications of the New Regulations

Transaction Types	Implications of New Regulations
Corporate Actions	– Certain financial organizations must monitor corporate actions and reports by issuers of the quantitative effect of such events on securities thus making for a potentially manual intensive process
Gifts and Inheritances	– For gifted securities, valuations must be based on the donor's cost basis or the fair market value as of the date of the gift – For inherited securities, valuations must be based on the valuations provided by the authorized estate representative
Lot Relief Methods	– Lot relief selection method must be introduced – FIFO (first-in, first-out) is the required default method for stocks – Investor requests to change from required default methods, to permit more flexibility, must be addressed
Mutual Funds and Dividend Reinvestment Plans (DRPs)	– Single account treatment or bifurcation of accounts for potential tax advantages or disadvantages
Short Sales	– Short sales must be reported during the tax year the sales are closed rather than the year they are opened – Short sales opened in 2010 will not be reported until they are closed unless they are closed by December 31, 2010
Wash Sales	– Wash sales must be identified for tax reporting purposes and attendant adjustments made in cost basis for reacquired securities and holding period

The chart above is a breakdown of basic transaction types and key implications related to the new cost basis regulations.

Changes to Form 1099-B

As noted earlier, the new law applies to the sale of covered securities reportable on Form 1099-B, as of the effective dates for the specific securities, noted before. The IRS has released a draft of the revised Form 1099-B for 2011 that includes additional boxes for cost basis reporting, gain or loss and holding period information and wash sale reporting. See image below.


7979 ☐ VOID ☐ CORRECTED

PAYER'S name, street address, city, state, ZIP code, and telephone no.

1a Date of sale or exchange

1b CUSIP no.

OMB No. 1545-0715

2011

Form 1099-B

Proceeds From Broker and Barter Exchange Transactions

2 Stocks, bonds, etc. $

Reported to IRS ☐ Gross proceeds ☐ 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 non-covered security ☐

Street address (including apt. no.)

7 Reported gain or loss

8 Type of gain or loss Short-term ☐ Long-term ☐

City, state, and ZIP code

9 Profit or (loss) realized in 2011 on closed contracts $

10 Unrealized profit or (loss) on open contracts—12/31/2010 $

11 Unrealized profit or (loss) on open contracts–12/31/2011 $

12 Aggregate profit or (loss) on contracts $

13 Bartering $

Account number (see instructions)

2nd TIN not. ☐

14 Description

15 Check if loss not allowed based on amount in box 2 ☐

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

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Draft as of 10/20/2009

New features of the draft of the 2011 Form 1099-B (compared to the 2010 Form 1099-B) to accommodate the new reporting requirements, include the following:

> Box 3: requires the reporting of cost or other basis of the security

> Box 5: requires the reporting of disallowed wash sale losses

> Box 6: requires notation if the security is uncovered

> Box 7: requires reporting of the amount of gain or loss

> Box 8: requires identification of the gain or loss as short-term or long-term

Conclusion

As the first effective date of the cost basis reporting rules approaches, most U.S. financial services firms responsible for tax reporting have taken action to ensure they are prepared. Some firms, however, may find themselves unprepared and at risk of being noncompliant with proposed rules, which may result in potentially significant penalties. For many U.S. firms, the responsibility for updating systems to ensure compliance with cost basis requirements is being taken on by outsourcing partners and other firms whose traditional role has been to provide such service and support.

Pershing is among those firms developing a comprehensive cost basis reporting strategy to ensure its customers are prepared when new cost basis rules go into effect. Key components of Pershing's strategy include:

> **Selecting Tax Lots**—Pershing is expanding its online service to allow for the selection of tax lots for partial security dispositions at either the point of trade or the asset movement entry, or up to and including settlement date.

> **Passing Tax Lots**—Pershing currently uses the DTCC's CBRS when providing ACAT account and position information to contra firms and will be expanding this service to include all security movement types that occur throughout the industry.

> **Audit Trail**—Pershing will track all information pertaining to tax lots, from acquisition to disposition, while providing a detailed view of the audit trail that captures and displays the information.

> **Notification Enhancements**—

- Expand the standard files for cost basis once the regulations are finalized
- Add the disposition method to the trade confirmations and debit advices
- Modify the Form 1099-B to capture all cost basis updates
- Provide its customers with the option of displaying expanded cost basis reporting, giving investors the opportunity to review their potential tax picture throughout the year

Based on the scope and complexity of changes to its systems and applications, Pershing is currently developing a comprehensive marketing and training plan to ensure its customers are fully prepared to meet cost basis reporting requirements. Look for additional communications from Pershing as final regulations for cost basis requirements of the proposed rules are published later this year.

Glossary

IRS Form 1099-B	IRS form used to report sales proceeds (e.g., gross proceeds) from the sale of securities acquired on or after the effective dates, noted below. Cost basis, gain or loss and holding period information and wash sale results will be reported on the form. The effective dates are: For Stocks—January 1, 2011 For DRPs and Mutual Funds—Generally January 1, 2012 For Debt, Options and Other Securities—January 1, 2013 (or later)
15-day Rule	Applies to transfers of cost basis information. For covered securities, the transferring firm has 15 days to transfer cost basis and other required information after the transfer of securities.
45-day Rule	Issuers of securities are required to report corporate actions no later than 45 days after the date of the corporate action or January 15, of the following calendar year, whichever is earlier. The issuer is required to include a description of the action and the effect on cost basis.
Automated Customer Account Transfer (ACAT)	The term concerns the transfer of securities from one brokerage account to another account at a different brokerage firm or bank. The transfers are automated and include transaction and security information.
Book-Entry Shares	Securities that are recorded on transfer agency books in electronic records called book entries rather than as paper certificates.
Certificate ("Physical")	Refers to securities that are physically issued in paper form. The presentation of a certificate for sale is by definition Specific Identification of Lots (see page 13). Certificated securities may represent multiple underlying purchase lots that require tracking.
Commodities Contracts	Derivative contracts that are typically used to hedge against various forms of risk. The contracts involve future contracts related to commodities that are generally traded on the Chicago Board of Trade and other exchanges. See also derivatives (below). The effective date for these securities is January 1, 2013, or later.
Corporate Actions	Includes taxable and non-taxable events that affect a company's capital structure. Can include stock splits, reverse splits, stock dividends, spin-offs, mergers and tender offers. Corporate actions can affect the basis and holding period of stocks and securities held triggering recognition of gain or loss for the investor. Improper adjustments can result in errors that can adversely affect computations of taxable gain or loss.
Cost Basis Reporting Service (CBRS)	CBRS is a National Securities Clearing Corporation (NSCC) product currently supported by DTCC. It is an industry standard for transferring cost basis information from one financial organization to another when accounts are transferred through ACAT. With upcoming revisions to accommodate IRS-required cost basis fields, CBRS may be the industry standard for all financial organizations.
Covered Securities	Refers to securities that are purchased or acquired after the effective date (for stocks, January 1, 2011). Depending on the security type, cost basis reporting is generally required.
Debt Securities	Securities representing debt or fixed income payment obligations, such as bonds and other forms of commercial paper. The cost basis of debt instruments is dependent on amortization/accretion requirements. The effective date for these securities is January 1, 2013, or later.
Deposit/Withdrawal at Custodian (DWAC)	Real-time method for moving shares to/from transfer agents and DTCC participants. Uses a matching system where the participant initiates the request, and the transfer agent approves it after matching the share total and participant's name. A DWAC deposit is a movement of shares from the transfer agent to the participant. A DWAC withdrawal is a movement of shares from the participant to the transfer agent. In both scenarios cost basis may have to be provided if known.
Derivatives	Securities that are typically used to hedge against various forms of risk, such as currency, commodity and option contracts. The effective date for these securities is January 1, 2013, or later.

Dividend Reinvestment Plan (DRP)	A program in which the shareholder elects to have dividends reinvested for additional shares. These additional purchases may be full or fractional shares. Each dividend reinvestment event is considered a separate purchase.
Direct Registration System (DRS)	System for book-entry ownership. It is a service in which shares are owned, recorded and transferred electronically without issuing a physical share certificate. Instead of being represented by a physical share certificate, shares are held in registered form and recorded electronically on the books and records of the transfer agent.
Direct Stock Purchase Plans (DSPPs)	These plans permit investors to regularly acquire shares and fractional shares of particular securities. These plans may allow the investor to purchase shares at a discounted price. Investors generally hold these securities on a long-term basis.
Employee Stock Purchase Plans (ESPPs)	These plans allow employees to purchase shares and fractional shares of their employer via payroll withholding and through other direct stock purchases. Some plans permit discounted purchases. Plans may be tax qualified under Internal Revenue Code (IRC) Section 423 or non-qualified. See also DRPs (page 12) and DSPPs (above).
External Transfer	Transfers that involve accounts of different reporting firms. External transfers may include transfers that result from gifted and inherited securities and other standard transfers.
Fast Automated Stock Transfer (FAST)	A DTCC system through which financial organizations can request physical certificates for investors. The "street" positions are all held at the transfer agent. The process involves debiting the shares and crediting an individual shareholder account. Cost basis would have to be provided by the DTCC participant to the transfer agent on the CBRS file. Some issues are not "FAST" eligible, so cost basis information may need to pass manually.
Foreign Securities	Securities that are issued by foreign corporations, entities, etc.
Holding Period	Represents the ownership period for a particular asset or security. Holding periods include both short-term and long-term periods. See also long-term (below) and short-term securities (page 14).
Internal Transfer	Transfers that occur within accounts held at Pershing.
Long Sale	Transaction involving the sale of security, where the security is owned before the date of sale.
Long-Term Securities	Securities that have a holding period of more than one year.
Lot	Information on a purchase of a security, in which the date, cost and number of shares can be distinguished from all other purchases of the identical security.
Lot Relief Method	To compute the adjusted basis of securities sold, the proper lot (or lots) of securities held by the investor must be determined. This process is often referred to as "lot relief."
Lot Relief Method (Average Cost Double Category)	All tax lots are aggregated into two categories: (1) short-term category and (2) long-term category. Securities are aggregated into the short- and long-term categories based on the securities holding period. The cost basis is averaged for the securities held within these two categories. This method is applicable only to DRPs and mutual funds, but may be eliminated as an allowable method by the IRS.
Lot Relief Method (Average Cost Single Category)	All tax lots are aggregated into one category and the cost basis averaged for the securities held within the one category. Under an IRS exception, this method is allowable only for DRPs and mutual funds.
Lot Relief Method (FIFO)	The only method, other than Specific ID, which is permitted under IRS rules for all security types. FIFO stands for "First-in, first-out." Securities that are purchased first are disposed of in chronological order.
Lot Relief Method (LIFO)	A type of specific identification of lots. LIFO stands for "Last-in, first-out." Securities that are purchased last are disposed of in reverse chronological order.
Lot Relief Method (Lowest Cost)	A type of specific identification of lots. Tax lots are selected based on lots with the lowest cost basis.
Lot Relief Method (Highest Cost)	A type of specific identification of lots. Tax lots are selected based on lots with the highest cost basis.

Lot Relief Method (Specific-ID)	The only cost basis allocation method, other than FIFO, which is permitted under IRS rules for all securities. The security owner is able to specifically select a particular lot for disposal before the sale or for transfer. Confirmation back to the security owner, from the financial organization, is required to verify that particular lot or lots were sold as instructed.
Omnibus Account	An account established in the name of one financial organization, which combines the transactions of multiple investors for the convenience of the introducing firm.
Partial Sale	Represents a partial sale of a tax lot. See also sub-lot (below).
Pre-Effective Securities (Grandfathered Securities)	Securities that are purchased or acquired before the cost basis reporting effective date. See uncovered securities (below).
Private Sale	Sales and transaction activity that occur privately and without the use of a regulated exchange.
Privately Issued Securities	Refers to the issuance of securities, without the use of a regulated exchange (e.g., NYSE, Nasdaq, etc).
Purchase	Represents securities that are purchased and/or acquired.
Reclassification of Income	Refers to situations where income is initially classified as dividend income, but part or all is later determined to capital gain distributions or return of capital. Reclassifications often occur in January of the following calendar year.
Restricted Shares	Shares that are transferred to an account for the benefit of an employee or other person. Vesting or ownership of the shares is contingent on a future event and typically will not vest until the occurrence of a specified event.
S Corporations (S-Corps)	A corporation that has elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code. In general, S corporations are limited to one class of stock, only U.S. citizens and residents may be shareholders, partnerships and corporations may not be shareholders and they may have only 100 shareholders.
Sale	Represents securities that are sold.
Scrip Dividends	A scrip dividend is a scrip issue made in lieu of a cash dividend. Shareholders are able to choose whether to receive a cash dividend or shares.
Short Sale	Selling a security that drives an account short and creates a borrow requirement, with the understanding that it must later be bought back and returned to the lending party.
Short-Term Securities	Securities that have a holding period of one year or less.
Sub-Lot	Each tax lot is comprised of multiple sub-lots. The sub-lots constitute portions of the total lot.
Transfers	Represents the transfer of securities from internal or external accounts. To the extent that securities are transferred to contra firms, the cost basis reporting information must be transferred within 15 days. See also 15-day Rule (page 12).
Uncovered Securities	Securities purchased prior to the effective date (for stocks, January 1, 2011), whose cost basis is not required to be tracked by financial organizations. See above pre-effective securities.
Wash Sale	Where a security is disposed of at a loss and an identical security is purchased or acquired during the 30-day period before/after the sale, the loss is disallowed and is used to adjust the cost basis of the reacquired security.

Notes

About Us

Pershing LLC (member FINRA, NYSE , SIPC) is a leading global provider of financial business solutions to more than 1,150 institutional and retail financial organizations and independent registered investment advisors who collectively represent approximately five million active investors. Financial organizations, investment professionals and independent registered investment advisors depend on Pershing's depth of experience and consultative approach to provide them with forward-thinking solutions that help them to grow their businesses. Located in 20 offices worldwide, Pershing and its affiliates are committed to delivering dependable operational support, robust trading services, flexible technology, an expansive array of investment solutions, practice management support and service excellence. Pershing is a member of every major U.S. securities exchange, and its international affiliates are members of the Deutsche Börse, the Irish Stock Exchange and the London Stock Exchange. Pershing LLC is a BNY Mellon company. Additional information is available at www.pershing.com.

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