



General

Q. What is Cost Basis Reporting and when will it be implemented?

A. The term Cost Basis refers to the original value of an asset for tax purposes (usually the purchase price), adjusted for events such as wash sales, stock splits, dividends and return of capital distributions. This value is used to determine the capital gain or loss when an asset is disposed of. On October 3, 2008, legislation was passed under the Emergency Economic Stabilization Act of 2008 that has a substantial impact on many areas of the financial services industry. As part of the new legislation there will be more stringent requirements on financial intermediaries such as issuers, transfer agents, brokers, banks and mutual funds, to report customers' cost basis in securities transactions to both their customers and the Internal Revenue Service (IRS). Recognizing financial institutions' need to adapt their systems and processes to comply with the new rules, the law takes a phased approach, requiring them to report cost basis for:

- Stock acquired on or after January 1, 2011.
- Regulated Investment Companies and dividend reinvestment plans (DRIP) shares acquired on or after January 1, 2012
- Financial instruments such as debt securities and options acquired on or after January 1, 2013

Q. Where can I access the Cost Basis Reporting regulations passed under the Economic Stabilization Act of 2008?

A. [Final IRS regulations](#) were published on October 12, 2010.

Q. What is the current status of the cost basis reporting implementation at AST?

A. As the next phases of Cost Basis Reporting become effective financial institutions will continue to adapt their systems and processes to be compliant. AST is currently compliant and is actively working on implementing Cost Basis Reporting solutions to be compliant with future phases of the legislation.

Q. What is a covered security?

A. A covered security is a specified security acquired for cash on or after the applicable effective date as per IRS Code §1.6045 (g)(3)(A).

Q. Are there any changes for S corporations under the new legislation?

A. Yes. Currently, no broker or transfer agent reporting on IRS Form 1099-B is required for customers that are corporations, including S corporations. The new legislation requires brokers and transfer agents to begin Form 1099-B reporting for S corporations (other than a financial institution) for sales of covered securities acquired on or after January 1, 2012. In the 3rd quarter of 2011 AST solicited accounts that were classified as a Corporation and requested they provide an updated IRS Form W-9 to further classify whether they were a C Corporation or an S Corporation. If a response was not received AST is required to report the account as an S Corporation, track cost basis, and report to the IRS and shareholders. This solicitation effort has been completed and shareholder account information has been updated to reflect the updated IRS Form W-9 that was submitted.

Q. Does AST utilize the DTCC CBRS services to transfer cost basis information?

A. Yes. AST is a DTCC limited participant and does utilize DTCC CBRS for transferring cost basis information to and from participating brokers. For more information on DTCC CBRS go to the link: http://www.dtcc.com/products/cs/equities_clearance/cbrs.php

Q. What is lot relief and what methods will AST support? Will AST support Average Cost?

A. Lot relief is a method of computing the cost basis of an asset that is sold in a taxable transaction. AST supports FIFO (First-In-First-Out) and specific lot identification. Effective January 1st 2012, AST will support Average Cost for Regulated Investment Companies and Dividend Reinvestment accounts.

Q. What is a wash sale?

A. Under IRS rules, you cannot deduct losses from sales of stock or securities in a wash sale. A wash sale occurs, when you sell stock or securities at a loss and within 30 days before or after the sale you replace the stock or security. For further information on wash sales please refer to the final IRS regulations and IRS Publication 550 – Investment Income and Expenses.

Issuer Related

Q. How can Issuers better understand what their responsibilities are in reference to being compliant with the new legislation?

A. In addition to the guidance offered in this document, each issuer should review the final IRS regulations to ensure it understands potential impact in its organization.

Q. What are issuer responsibilities under the new legislation in regards to Corporate Actions affecting cost basis of securities?

A. The new legislation specifically states issuer responsibilities in regard to corporate action events that affect cost basis of securities and issuers should refer to the final IRS regulations for clarification. Details can be found on page 64082 in the section titled, "Reporting by Issuers of Actions Affecting Basis of Securities."

Q. Will there be any changes to AST issuer user interfaces?

A. No. There are no changes planned for the AST issuer user interfaces in 2011. Issuer user interface changes are expected in 2012 and they will be communicated to issuers at a future date.

Q. Will issuers be required to provide AST with cost basis information?

A. Yes. In most instances of original issuance, the issuer will be required to furnish cost basis information for:

- Issuance of stock upon conversion of Convertible Bonds
- Issuance of stock upon conversion of Convertible Preferred Stock
- Issuance of stock upon exercise of Warrants
- Issuance of stock in connection with corporate actions
- Issuance of stock upon exercise of Employee and Executive Stock Options

Original issuance of restricted stock awards and restricted stock vestings, however, will not require cost basis information.

Q. Will there be any changes required to data files that are sent by issuers to AST?

A. Yes. Required changes for data sent to AST from issuers have been communicated. Please contact your Relationship Manager if you have any specific questions.

Shareholder Related

Q. Will there be any changes to AST shareholder user interfaces?

A. There are no changes planned for the AST shareholder user interfaces for 2011. Shareholder user interface changes are expected in 2012 and they will be communicated to shareholders at a future date.

Q. Will shareholders be required to provide AST with cost basis information?

A. No, there is no requirement for shareholders to provide cost basis information. In the case of a gift transfers, such as a transfer to a UGMA, the cost basis and acquisition date of the donor's (transferor's) shares, if known, will be carried forward. In the case of estate transfers, the cost basis of covered securities will be determined based on the date of death in conjunction with the fair market value on that date unless the estate administrator provides an alternate cost basis. However, there is no requirement for the Transfer Agent to solicit cost basis information from shareholders.

Q. Will shareholders need to inform AST whether a transfer is a gift or inheritance?

A. Yes. Shareholders, or their representatives, should provide the necessary documentation for such transfers when they present the new registration instructions. Transfers that fall under this category include transfers under the UGMA, transfers to an estate, or gifts to a charitable institution. Under the new regulations, transfers that are not specifically identified as gifts, inheritances, private sales or re-registrations due to name change, replacements or a related party transfers are defaulted to gifts for cost basis reporting purposes.

Q. Will shareholders need to inform AST of the cost basis for a transfer due to gift or inheritance?

A. No. There is no requirement for the shareholder to provide cost basis. The estate representative may provide an alternate valuation for covered inherited securities, however in the absence thereof the fair market value on date of death (if available) will become the adjusted cost basis. If the fair market value on the date of death is not readily available the shares will be marked non-covered. Transfer of gifted covered securities will take the donor's (transferor's) acquisition date and the donor's cost basis. Transfers due to re-registration such as name change, related parties, and replacements do not have any effect on cost basis.

Reporting

Q. How will 1099-B reporting change and will this require a new version of IRS Form 1099-B?

A. As a result of the new Cost Basis Reporting requirements, the IRS has modified the 2011 IRS Form 1099-B. New boxes have been added for reporting the date of acquisition (box 1b), cost or other basis (box 3), amount of loss disallowed due to a wash sale (box 5), whether a property sold is a non-covered security (box 6), and whether the gain or loss is short term or long term (box 8). This new form will be distributed to clients in early 2012 covering 2011 transactions. Please be sure to reference the IRS site at www.irs.gov/form1099b for updated information.

Q. I currently receive an IRS Form 1099-B when I receive a proceeds check. Will the IRS Form 1099-B still be provided with the proceeds check?

A. The IRS Form 1099-B that is currently distributed with proceeds checks (Check/1099 Combo) will no longer be distributed throughout the year when sales are made. After the 2010 tax reporting year AST will be providing IRS Form 1099-B at year end only. Taxable transactions in 2011 will produce a 2011 1099-B, which will be mailed by February 15, 2012.

Q. Can AST provide historical cost basis information?

A. AST will provide Cost Basis information for covered securities starting of January 1st 2011, the effective date of the new Cost Basis Reporting legislation. AST will not provide historical cost basis information prior to this date.

Original Issuance

Q. Why is the issuer responsible for providing cost basis information?

A. As per legislation under the Emergency Economic Stabilization Act of 2008 financial institutions are responsible for tracking and reporting cost basis for securities. This impacts the financial services industry and transfer agents, brokers and issuers all have responsibilities to comply with the new legislation.

Q. Is there a specific section of the legislation that references the requirement for issuers to provide cost basis information?

A. Yes. Issuers should refer to the final IRS regulations that provide guidance for Transfer Statement reporting. Under the new legislation Issuers and their agents are required to provide transfer statements when transferring securities. By sending cost basis reporting information in either the O-I data file or letter formats the transfer statement reporting requirement is addressed.

Q. What if the issuer does not provide cost basis information?

A. If cost basis information is not provided by the issuer AST will track the shares as non-covered. Data entry will be trained to enter the shares and mark them as non-covered.

Q. Can issuers provide the information at a later point in time?

A. If issuers do not provide CBR information at the time the letter or data file is submitted to AST they can provide this information up until 15 calendar days after the information has been provided. If information is not provided within the 15 calendar days the shares will be considered uncovered.

Q. Are there any IRS penalties if Cost Basis Reporting information is not provided?

A. Issuers should consult with their tax advisors to ensure they understand the new legislation and potential IRS penalties.

Q. What is a TCN number and how would it be used in reference to original issuance?

A. TCN is an acronym for Transaction Control Number. The TCN is generated by a broker and used to match tax lot information contained on transfer statements sent via DTCC CBRS. In some cases, original issuance instructions may be coming from exchange or conversion agents, or external plan administrators, e.g., employee option administrators. Exchange Agents and Plan Administrators as well as AST are participants at DTCC and may participate in DTCC's CBRS platform for transferring cost basis data from one agent to another. The TCN number can be used to identify specific cost basis data to be delivered between agents. In the future, one of AST's client's agents may decide to deliver cost basis information related to an option exercise or bond conversion via DTCC's CBRS system in which case the TCN assigned by them would be attached to the credit certificate/book-entry issued by AST; the CBRS system would pick up the data electronically to transfer it from one agent to another.

Contacts

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