

GainsKeeper CompleteDebt™

The Challenge

The cost basis reporting law (CBRL) greatly expands the scope and complexity of Form 1099 tax reporting for the securities industry. This is particularly true for tax reporting for debt held by brokers, where the sheer number of complex calculations required is likely increased by a factor of ten or more.

Brokers have already experienced significant data and system upgrades and challenges for Phase 1 coverage of stock acquired on or after Jan. 1, 2011 and Phase 2 coverage of mutual fund and dividend reinvestment plan stock acquired on or after Jan. 1, 2012.

Meeting the Phase 3 coverage of debt and options acquired on or after Jan. 1, 2014 presents the most difficult and cumbersome tax rules, data acquisition requirements and resulting system upgrades yet.

The Solution

GainsKeeper CompleteDebt™

The cost basis reporting compliance solution of choice at blue chip brokerages for Phases 1 and 2 of this law, our GainsKeeper enterprise system already has necessary functionality to provide real-time calculation of debt cost basis.

CompleteDebt™ provides the full range of debt functionality available on our GainsKeeper enterprise system today as a **stand-alone solution**. It can be seamlessly integrated with your existing cost basis system to meet the Jan. 1, 2014 requirements.

Comprehensive Debt Solution

In addition to adjusting debt securities for wash sales and corporate actions, Phase 3 requires four additional debt adjustments: OID - original issue discount; bond premium; market discount; and, acquisition premium. Brokers must also support five customer elections that affect these adjustments. Most debt calculators do not comply with all of the tax rules for making these adjustments. Moreover, the security master data required for tax calculations and reporting is not contained in a typical broker's operations focused security master. And, wash sales and corporate actions relating to debt securities can be extremely complicated.

By providing a single comprehensive debt solution, **CompleteDebt™** eliminates the often disjointed workflow issues resulting from reliance on multiple third party vendors for debt adjustments. But more importantly, non-integrated systems raise potentially severe compliance risks for brokers because of concerns that necessary data or attributes are not passed or properly utilized by different processes employed by separate vendors or work groups such that there are inherent errors in the final calculations reported to the IRS.

Examples of Covered Debt Starting in 2014.

- Taxable and tax-exempt debt with a fixed payment schedule and fixed yield (with or without OID)
- Taxable and tax-exempt debt with alternate payment schedules and a fixed yield (with or without OID)
- Fixed yield demand loans
- US government securities
- Publicly issued corporate securities
- Privately placed debt and notes
- Certificates of Deposit
- Loans

Additional Types of Debt Will Be Covered in 2016.



Proven, Tax-infused Technology

At Wolters Kluwer Financial Services, tax accuracy is paramount. Our cost basis solutions are built under guidance of our Senior Director & Tax Counsel, Stevie D. Conlon, J.D., a noted industry tax law expert. Stevie works closely with our development team, interpreting the law to ensure that our tax algorithms are accurate and in accordance with the tax code. She also works with industry groups and has submitted written comments to the IRS on various aspects of the cost basis rules over time to address compliance concerns.

Tax-centric Comprehensive Security Master & Corporate Actions Details

CompleteDebt™ leverages GainsKeeper's robust security master which includes attributes necessary for proper tax computations and extensive corporate actions tax database—both of which are supported by expert, tax-focused teams. Our security master includes all the necessary tax attributes to support the extremely granular requirements for accurate debt cost basis calculations—including corporate actions adjustments.

The universe of debt securities is far larger than the universe of Phase 1 and Phase 2 securities. As a result, we have already expanded our security master to include over 6 million debt securities—above the 1.6 million securities already covered for Phases 1 and 2. Additionally, debt adjustments require coverage of many more attributes. As a result, we expanded our security master to include as many as 80 additional attributes for debt securities—above the 10 required for Phases 1 and 2 compliance.

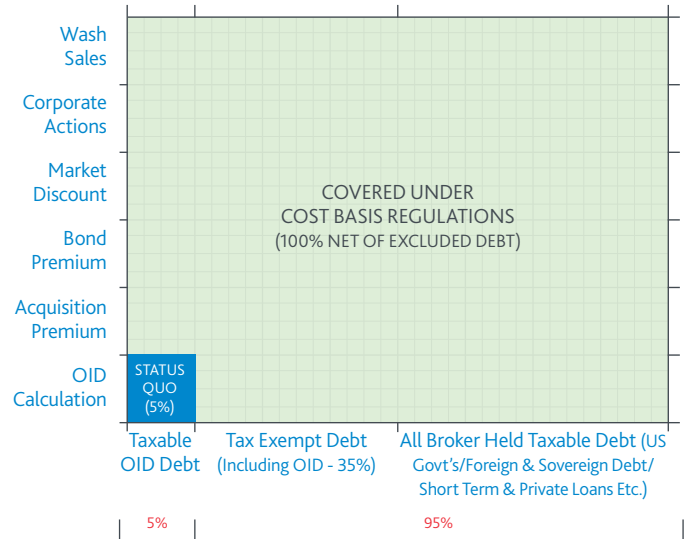
Real-time Processing

Because **CompleteDebt™** provides real-time cost basis for debt securities, it eliminates nightly batch processing data delays. Delays can easily occur if one system or vendor performs one set of calculations such as debt related adjustments, while another performs different calculations and adjustments, such as wash sales or corporate actions. Such delays can result in numerous transfer reporting and other corrections—with costs that can add up fast.

Significantly Expanded Reporting Requirements

Previously, only taxable OID debt had to be calculated and reported on Form 1099-OID. This represents only a small portion of a broker's typical holding of debt securities (possibly 5% or less). Under the cost basis reporting rules for debt, brokers will be required to make calculations for ALL debt holdings (other than certain short-term debt and certain, but not all, mortgage-backed securities).

New Debt Coverage Requirements Under Cost Basis Reporting



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