FINANCIAL INFORMATION FORUM

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Electronic Delivery and FedEx

Pamela Lew
CC:PA:LPD:PR (REG–102988–11)
Room 5203
Internal Revenue Service
P.O. Box 7604, Ben Franklin Station,
Washington, DC 20044

Re: Basis Reporting by Securities Brokers and Basis Determination for Debt Instruments and Options [REG-102988-11]

Dear Ms. Lew,

The Financial Information Forum (FIF) [1] would like to take this opportunity to offer additional feedback to the notice of proposed rulemaking published by the Internal Revenue Service, U.S. Department of the Treasury (IRS) on November 22, 2011 regarding basis reporting by securities brokers and basis determination for debt instruments and options. FIF submitted an initial comment letter [2] outlining critical issues and proposed the following recommendations that require the IRS's immediate consideration:

a) The effective date for fixed income reporting should be delayed for a minimum of 18 months after issuance of final regulations[3]. Firm assessments of the magnitude of work associated with building out and testing systems to process amortization, accretion and other fixed income products calculations support this needed timeframe. Additionally, some member firms that have implemented systems that calculate bond amortization and accretion, have been quick to warn that their implementations were multi-year projects that required a minimum of 6 months of detailed testing after deployment because of all of the different bond types and complexities. These firms also note that even their systems, as built, will require substantial work to comply with the proposed regulations.
b) Include safe harbor language in the final regulations for brokers who rely in good faith on data or systems thought to be correct when calculating, transferring or reporting basis on fixed income or options.

[1] FIF (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.
[2] See initial FIF Comment Letter on REG–102988–11, dated January 27, 2012
[3] See FIF Letter to the Treasury on Fixed Income Cost Basis Reporting Concerns

c) The very broad definition of fixed income securities subject to basis reporting should be reconsidered and more narrowly defined. While the section 1272(a)(6) exclusion is helpful, a universe of specifically defined securities subject to basis reporting (especially during a multi-year transition period) would facilitate a smoother implementation by limiting the software development challenges currently known and the unanticipated demands that may be placed upon the industry as new financial instruments are developed and new issues are uncovered related to currently available debt instruments.

d) Fixed Income transfer requirements should be changed to mandate the transfer of original basis/acquisition cost and the data necessary to calculate adjusted basis from the date of original issuance or acquisition by the account holder.

e) All options subject to Section 1256 should be excluded from 1099 basis reporting[4].

f) An ongoing dialogue should be opened as soon as possible between the IRS and representatives of the securities industry to bring clarification to where confusion exists in the understanding or application of the proposed regulations and Industry practices.

The FIF Cost Basis Working Group would like to offer further recommendations that it hopes can serve as the basis upon which to build a comprehensive dialogue and exchange of ideas that leads to a regulatory framework and implementation timeframe conducive to a successful implementation and greater taxpayer compliance. With regard to our request for a delay in implementation, we note that the General Accountability Office stated in its June 2006 study "CAPITAL GAINS TAX GAP: Requiring Brokers to Report Securities Cost Basis Would Improve Compliance if Related Challenges Are Addressed" that their analysis showed "Of those taxpayers who misreported securities sales, an estimated 97 percent misreported gains or losses from the sales of stocks and mutual funds while an estimated 5 percent misreported bonds, options, or futures." With the number of potential misreported transactions arising from bonds and options representing only a small fraction of those that are misreported, delaying implementation should not adversely impact, to any sizeable extent, the expected gains in compliance being achieved from equity and mutual funds reporting.

The following sections expand upon the critical issues stated above and offer other observations and scenarios that support the need for modifying portions of the proposed regulations and delaying its implementation. FIF believes its concerns need to be addressed between now and the issuance of final regulations. This is particularly true given the magnitude of work associated with building out and testing systems to process amortization, accretion and other fixed income calculations and the fact that the proposed regulations lack full definition. While options processing poses less complexity, the need for clarity with respect to options also supports our delay and requests for modifications.

[4] Requiring mark to market securities tracked with basis adjustments will prove confusing for the taxpayer. If the IRS does require reporting on a segment of 1256 options, FIF believes specific guidance on which options are and are not subject to that reporting is needed and that their treatment for wash sale purposes should be clarified.

Fixed Income

FIF requests that the IRS reconsider the very broad definition of fixed income securities subject to reporting. While the section 1272(a)(6) exclusion is helpful, a universe of specifically defined securities subject to basis reporting during and after implementation will provide certainty as to what is required from the industry and enable focused software development to meet the requirements of those instruments. We believe the industry can be best prepared to track basis on bonds with a fixed maturity date and stated interest rates by January of 2013 (See Appendix II showing complexities in gathering Fixed Income Cost Basis Data). FIF members report that fixed rate/fixed maturity date bonds represent more than 90% of debt holdings.

It should be noted that bond premium and market discount rules apply to all debt so brokers will be required to track this for potentially all debt instruments in their custody. Further, the complexities of programming for Section 171 amortization of premium for various bond types (taxable, non-taxable, contingent, convertibles, variable rates, inflation indexed, etc.) supports the case that carve outs are needed to accommodate a transition period. So too does the fact that foreign bonds' and currency rate instruments' amortization/accretion calculations will greatly challenge the industry.

The proposed regulations require brokers to amortize bond premium on taxable bonds by assuming that the customer elected to amortize bond premium. However, there are complex rules under the Section 171 regulations for determining the appropriate term of the bond for amortization purposes. For the industry to perform these bond amortizations, clarity on Call Dates and Put Dates is needed. It is unclear if issuer's choice or caller's choice will determine the amortization period. FIF believes all continuous or otherwise callable bonds should be amortized to their maturity dates as a means of standardizing basis tracking. FIF assumes that since the IRS has been silent on requiring amortization dates, the IRS has made the assumption that all firms are amortizing to the same date. This is not the case and without uniformity among brokers, issues will arise especially during the transfer of fixed income instruments.

With regard to market discount, the IRS has yet to issue regulations addressing many aspects of the discount rules with the potential for resulting confusion. The proposed regulations require brokers to compute and report the amount of market discount accrued as of the date of sale or transfer using the constant rate method. In order to determine if market discount applies, brokers will also be required to make de minimis calculations. However, customers may use the straight line method and can elect to include market discount as ordinary taxable income as it accrues and adjust the basis of the security. FIF believes the IRS should consider the potential for taxpayer confusion and clarify its market discount and basis reporting rules to avoid this.

Fixed Income - Original Issue Discount (OID)

As proposed the regulations will create a reconciling difference for taxpayers, as brokers will be required to assume that a customer has elected under section 171 to amortize bond premium on a taxable debt instrument for basis tracking purposes, but will continue to be required to report a holder's interest or OID income on Form 1099-INT or 1099-OID each year without taking into account any premium on the related instrument. While the IRS's belief that most holders will make a section 171 election to treat the premium as an offset to ordinary income rather than as a capital loss may be correct, the issuing of a 1099 OID or INT that is inconsistent with that firm's calculations of basis for that security will be confusing for taxpayers. FIF requests the IRS to reconcile these regulations for consistency or, in the alternative, to provide taxpayers with a means of reconciling the 1099s in question with the instrument's basis.

Further concerns with OID basis reporting result from the timing of calculations, the data gathering needed for accreting the OID, the processing of differing accrual periods on like OID instruments when one has a related market discount and another does not (note that fixed income calculations not related to the particular investor's purchase price are typically performed at the CUSIP and not the lot level for holders), and the fact that current industry OID calculations are normally performed once a year, at year end. Under the proposed regulations the timing of adjustments will vary and may possibly be required daily, monthly, semi-annually or annually. Current OID reporting on 1099s is typically done one time at the end of the year. Many brokers use a vendor for this and don't calculate it throughout the year. Under the proposed regulations, brokers will be challenged to calculate OID for basis purposes on a less than annual basis. Requiring the industry to calculate OID on an interim basis is also problematic due to data availability and complexity of calculations. In fact, currently, the Industry relies upon a list of OID CUSIPs periodically made available, via hyper-links from IRS publication 1212 that identify securities subject to OID and factors that should be used. Under proposed regulations, it is unclear how brokers would calculate adjusted basis at the time of transfer or sale without IRS publication 1212 being updated on a daily basis.

The tracking of OID and the accretion of discount in one set of intervals, while at the same time tracking OID for the same instrument in the same account with premium amortization on an annual accrual period or one that matches the frequency of regular coupon or principal payments, presents further software development and data tracking challenges, as well as confusion for the customer.
Each calculation will be driven off of each individual instrument's payment terms and the nature of each transaction in which such instrument was acquired. Thus, in markets with some volatility, a customer could purchase the same OID instrument (with stated interest payments) on day 1 for a slight premium and then some time later for a slight discount and have two different accrual reporting and basis tracking periods.

FIF believes that a discussion with the IRS to explore the treatment of the issues with OID 1099 basis tracking and reporting would help to alleviate the potential burdens and move compliance along more effectively. We would note some additional OID concerns revolve around the computation of OID and basis adjustments under Sections 1271-1275 and 6049 as they are applied to variable rate debt, contingent debt, tax-exempt municipal debt, inflation-indexed debt and foreign currency denominated debt (Section 988). The challenges and difficulties to create the systems and processes needed to track basis on these instruments cannot be underestimated.

Transfers

Firms in the securities industry utilize many different systems for processing transactions and maintaining books and records. These systems perform calculations within certain limitations. For example, the number of places a system rounds to may be different from other systems, as may certain calculations based upon number of days in a year or quarter. Additionally, firms are not uniformly amortizing or accreting to a specific put, call or maturity date. As a result, like instruments with amortization, accretion or OID may be calculated differently from firm to firm. As such, basis adjustments of transferred debt instruments may create undetected differences that impact a customer's tax reporting. FIF believes that all original purchase data, including original purchase price and related premium or discount if any, should be included with the transfer data. This is how many systems currently calculate amortization or accretion. They revert back to original basis and then calculate forward from there. Changing this to work with the existing proposed regulations would require spending millions of dollars in software development when systems can already process basis by using original data. FIF believes that incorporating the amortization or accretion performed at the delivering firm in the calculations of adjusted basis at the receiving firm is a substantial resource drain that can easily be avoided.

The proposed regulations do not require brokers to update clients or report on Form 1099 annual amortization or accretion numbers until a security is sold. However, due to the potential variances in calculations performed by brokers, and the potential for these differences to remain unknown on transferred securities for extended periods of time, this may result in taxpayer confusion and filing errors long after the transfer has occurred.

While information required for the transfer of equities and mutual funds is straightforward for the most part, this is not necessarily the case for debt securities. With equities, adjustments are one-time events; firms receiving transfers can easily apply the adjusted basis and continue from there. On the other hand, with debt securities, calculations all build upon themselves, making it much more challenging to rely on adjusted basis provided by another firm. Additionally, the payment terms requirement could prove troublesome for some complex or variable rate debt instruments because it could require a broker to provide many additional elements in order to fully describe the debt instrument's payment terms. With regard to options the need to transfer "other information required to fully describe the option" may also prove a challenge because it could require a broker to provide many additional data elements in order to fully describe the option including information about the underlying security, index or financial attributes. Additional attributes may be necessary to fully describe complex options. FIF believes it will take the industry and its utilities more time than available between the publication of final regulations and implementation to modify systems to accommodate a truly automated transfer of debt and option instruments with all information sufficient for the tracking of basis.

Our members have also cited concerns with having to create OID and other calculations at any point in the life of a debt instrument for a transfer as most firms are not prepared to do these as 'spot' calculations, outside of a periodic batch processing cycle. See Fixed Income - Original Issue Discount (OID) above. Further, the need to locate potentially missing data for such calculations will adversely impact the transfer process as well. As noted above, other than market premium /discount, calculations are performed the same way at the CUSIP level for every single holder. Requiring firms to use adjusted cost basis provided by transferors necessitates all calculations at the position level again, imposing upon firms to rebuild their processes for calculating adjusted basis for debt securities. This would also potentially create inconsistencies for clients holding a combination of transferred lots and lots purchased at the firm. Some additional transfer concerns are included with the attached <u>Appendix I - Fixed Income / Option Topics - Questions for IRS</u>.

Data Availability Issues

FIF requests that basis reporting not be required on fixed income instruments lacking available data elements to calculate amortization or accretion. To amortize premiums and accrete discounts, specific data elements may be missing for certain debt instruments thus preventing the accurate tracking of basis. Examples of such instruments include Certificates of Deposits, Loans, Foreign Debt, Foreign Corporate Debt, Municipal Debt and Contingent Debt. Examples data elements that are not readily available include reference price, bond premium, OID, market premium or discount, and the date of amortization or accretion. Whether an entire debt type is excluded from reporting requirements, or a safe harbor is created for not performing such calculations when information is not readily available, FIF believes that all data elements identified as necessary to accurately calculate of basis must be made available to payors. To accomplish this, regulators must mandate that issuers and other holders of such data be required to furnish it on a timely basis similar to the corporate actions obligation placed upon equity issuers in 2011. Of those securities where data is difficult to obtain, FIF members believe private and foreign debt, foreign and over-the-counter options, and rights and warrants are the most problematic. Some additional data concerns are included with the <u>attached Appendix I - Fixed Income / Option - Questions for IRS</u>.

Options Cost Basis Reporting

FIF members believe 1099 reporting should initially be limited to listed options and those options with operations data readily available to support tracking and adjustments or, in the alternative, a 'best efforts' safe harbor should be created for options with little readily available data such as those that are non-listed or foreign. We note that the definition of options is very broad and will present programming challenges. In anticipation of 2013, many firms are utilizing resources to prepare to track basis adjustments to options and their underlying securities for corporate actions such as mergers and spin-offs. The complexities of these programming requirements are already vying for finite in-house options expertise. With regard to corporate action activity and options, clarification is needed as to what "substantially identical" means when the identifying OSI symbol changes. There are many unique situations that arise for options with regard to corporate actions that require clarification. Additionally, "substantially identical" for holding period purposes should also be clarified. This becomes important in corporate actions when the symbol itself changes. With equities, a firm can rely upon the CUSIP but with options, the symbol itself changes and there is a need to declare what the outcome is. An IBM option can become IBM1. The deliverable can also change. It might even become the deliverable of a different stock. If the symbol does change, the position will go from IBM into IBM1. The next day a new standard IBM option may be listed. Thus "substantially identical" needs greater definition for options.

In the case of options that are not listed, the IRS will need to establish a means of identifying them for 1099B purposes. There are unique identifiers in listed options but not for over-the-counter options. In fact, brokers create OTC options on trading desks that are not listed on any exchanges. Currently there are not standard sets of identifiers used to track OTC options. Guidance is needed for identifying such options on 1099 forms that will make sense to the IRS and so industry systems can uniformly identify these options. Creating a system for such identification must be broad enough to capture all reportable options.

FIF is requesting that all Options subject to Section 1256 reporting be excluded from 1099 basis reporting. The requirement to report basis on options includes options on indices of specified securities, which are defined as non-equity options or cash settled options, and subject to section 1256 wherein the taxpayer will mark to market the position at year end and treat 40% of the gain or loss as short-term and 60% of the gain or loss as long-term. Requiring a payor to report basis for these 1256 options in the same manner they will be required to report basis for non-1256 options will only confuse the taxpayer. Further, once the element of a wash sale is introduced into this scenario the taxpayer's confusion and reporting agent's challenges arising therefrom only become greater. We can envision little benefit to the taxpayer or the IRS by providing 1099s for 1256 options in the same manner as those provided for non-1256 options. If, however, the IRS does require reporting on a segment of 1256 options, FIF believes guidance on which specific option types will require reporting and clarification of their treatment for wash sales, gain and loss duration reporting and mark to market purposes must be provided to enable proper reporting. FIF further believes that with proper guidance and sufficient timeframes, the possibility of aligning broker reporting with customer recordkeeping on 1256 options could be implemented at some future date to limit customer frustrations and enhance compliance. In addition, FIF believes tracking compensatory options for 1099 reporting and transfer purposes would create unnecessary recordkeeping challenges since such options seldom transfer and transfer agents commonly exercise and transfer/deliver stock for these options. Given the rarity with which such transfers occur, we believe these securities should be excluded from transfer requirements.

Warrants and Rights

The introduction of Warrants and Rights into basis reporting as options creates specific challenges when applying section 307 which requires allocating basis of the old stock between the old stock and the rights to acquire the new stock. If the fair market value of such rights at the time of the distribution is less than 15 percent of the fair market value of the old stock at such time, then the basis of such rights is zero, unless the taxpayer elects to have the basis allocated. Such election is made by the taxpayer in the return filed for the taxable year in which such rights were received. FIF members have raised the following questions:

- Will brokers be required to adjust basis for this if taxpayers make the election? If so, what notification is to be given to the broker so it can allocate basis according to section 307. It should be noted that the basis reported for shares of the old stock, if sold within the taxable year the rights were received, may prove to be inaccurate on the 1099B filing as the election to allocate basis to the rights in lieu of a zero basis can be made well after the 1099B reporting window. Will such the status of covered versus non-covered for Rights and Warrants that are issued in 2013 and thereafter be contingent upon whether basis is allocated from the old shares to the Rights or Warrants based upon the use of the 15% rule, and /or whether the old shares were themselves covered?

- Section 307 also provides for the reversion of basis away from rights that expire unexercised to the stock on which the rights were distributed. Will brokers be required to track this as well?

FIF suggests brokers only be required to adjust basis using information provided by issuers at the time rights and warrants are issued and applying basis adjustments in accordance with a hard and fast 15 percent rule.

Customer/Taxpayer Communication

A critical component of any dialogue between the IRS and the Industry is the impact the basis regulations have on our customer base. In general, while the industry has undertaken its obligation to educate customers on specifics of basis reporting for approximately one year, there are areas of inconsistency between our reporting and the taxpayers' tax filing obligations that have or will lead to confusion. Although such differences may be explained to taxpayers by both the industry and the IRS, in practice taxpayers will find these differences difficult to understand and account for, leading to taxpayer compliance issues. While FIF members can look at and use the proposed regulations as a guide in initial preparations, until the final regulations are drafted, firms are not comfortable beginning any form of communication with customers. It is important to note that with Fixed Income and Options, there are many more scenarios where taxpayers will be making choices that are different from what brokers will be reporting. This will require significant education that cannot be started until final regulations are published.

Year one basis reporting has already presented many possibilities for misunderstanding and mistake. Most obvious of those is the reporting of same account, same security wash sales by broker when contrasted with the taxpayers continuing obligation of substantially similar securities across accounts. However, other issues such as the variance in option premium treatment during the phase-in period, the difference in reporting of basis on non-covered securities between firms, and the concept that a covered security is treated as held in a separate account from any stock that is a non-covered security (including for wash sale purposes) is confusing to customers. This tax season has also ushered in the practice of issuing multiple 1099Bs for a single sale transaction, portions of which may or may not be part of a broker's reported wash sale.

The advent of options reporting will bring with it broker reporting / taxpayer filing inconsistencies with respect to gain or loss, wash sales, and duration reporting on 1256 options, potential issues and inconsistencies with rights and warrants reporting, confusion with the presentation of 'net' proceeds of sale on 1099Bs and reconciliation challenges arising from compensatory options and the corresponding stock acquired. FIF believes much of this confusion can be avoided in the drafting of final regulations.

With regard to fixed income, the preamble in the proposed rules states "It is also expected that prescribing which elections are to be ignored and which elections are assumed to be made will standardize, and therefore simplify, the information reporting required with respect to OID, bond premium, acquisition premium, and market discount." While this may somewhat simplify a broker's work on the processing side it will lead to substantially more work and customer interaction on the tax reporting side. FIF believes that a constructive dialogue with the IRS on inconsistencies between fixed income broker reporting and taxpayer filing obligations could lead to more customer friendly solutions and enhanced taxpayer compliance if the necessary amount of time for creating and implementing alternative solutions is made available. Further, the preamble also notes that if a customer uses an assumption or method different from the assumption or method used by the broker, the customer must reconcile the amount reported on the Form 1099-B to the amount reported on the customer's tax return and, notwithstanding the information reported by a broker, a customer is still required to comply with all relevant provisions of the Code and regulations. Given the challenges the industry sees in acquiring the necessary data for some of these calculations we wonder how the customer will have access to and an understanding of such data for his or her reconciliation. This is particularly true for Investors in determining the accrual periods that they use and making important elections under the OID, bond premium and market discount rules. As systems are enhanced, FIF believes brokers should be given the discretion to offer optional methods of basis tracking that coincide with a customer's elections.

Summary of FIF position

The FIF and its members continue to be supportive of the IRS's initiative to implement basis reporting and thereby enhance taxpayer compliance. During the initial rule-making process FIF and other industry participants noted that while cost basis was an accommodation offered to certain customers, it was neither universally offered, nor capable of being used for accurate tax reporting without substantial modifications and the application of industry-wide standards. Fixed income instruments and options present a far greater challenge to tracking and reporting than did equities. The issues, concerns and observations raised in this letter have addressed many, but not all, of those challenges. FIF believes an ongoing dialogue with the IRS is needed to fully to address industry concerns. An ongoing dialogue can bring clarity to where confusion may exist in the understanding or application of the proposed regulations or Industry practices.

FIF believes the final regulations should contain a safe harbor, for brokers who rely in good faith on data or systems thought to be correct when calculating, transferring or reporting basis on fixed income or options, for a reasonable time after implementation. Finally, FIF reiterates its recommendation that the fixed income implementation date be delayed until eighteen months after final regulations are published.

Representatives from FIF will be in attendance at the public hearing scheduled on March 16 at which we look forward to presenting our members' positions on the topics highlighted in this letter. We appreciate the opportunity to interact with the regulators and industry participants in this forum in order to ensure that the final regulations can be implemented.

Regards,

Arsalan Shahid
Program Director, Financial Information Forum
On behalf of FIF Cost Basis Working Group

Appendix I - Fixed Income/Options Topics - Questions for IRS

- **Structured Products[5]:** Please refer to 'IRPAC Follow-up Comments as of June 23, 2009', specifically regarding Investment Units and Reverse Convertibles listed under topic number 17. We feel that FIF should recommend that IRS delay implementation of basis reporting on these hybrid types of securities beyond 2013, until such time as the IRS issues further guidance on standardized methodology for the industry to follow regarding the proper tracking of cost basis.
- **Treasury Inflation Protected Securities (TIPS):** These issues require special handling by cost basis engines; they need industry standardization. There are concerns around Consumer Price Index (CPI) number versus actual index ratio and subsequent impact on market valuation. Further clarification and time is necessary.
- **Municipal and corporate bonds that become 'factorable' after historically paying straight coupon interest at par:** Recent history has shown a number of municipal and corporate issues that had traditionally paid out actual coupons, for example, over the last ten to fifteen years. Then, their amended prospectus reports that the issuer will start paying down principal on a regular basis, thus becoming 'factorable' mid-stream. There are concerns involved surrounding issues such as identification, firm/vendor classification, factor data and basis repercussions. IRS guidance is needed.
- Does the issuance of a bond or note require an Issuer Return under IRC 6045B in order to know the correct issue price, call provisions, conversion terms, etc.? What about reorganizations resulting from bankruptcy proceedings when new bonds or notes are issued for old bonds and notes? IRS guidance is required.
- Will any special reporting be required for return of principal payments when there is accrued market discount that must be recognized first? IRS guidance is needed.
- What reporting will be required for the conversion of convertible bonds or preferred stock? How will bond basis attributes transfer to new shares?
- What about OID accruals and deflation adjustments for publicly traded debt securities? Will Treasury be required to provide that information on a daily basis to ensure accurate transfer statement information?
- What reporting will be required for contingent payment debt instruments where the gain or loss generally cannot be treated by the taxpayer as a capital gain or loss? Will the broker be required to identify that, or will that be a taxpayer adjustment situation on the Form 8949?
- What reporting will be required on defaulted bonds and builder bonds?
- What reporting will be required for perpetual maturity, remarketed, territorial and foreign bonds?

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[5] Examples of structured products include: index-linked notes, equity-linked term notes, trust preferred, fixed rate capital securities, income deposit securities, mandatory convertible securities, reverse convertible securities, QUIBs (Quarterly Interest Bonds), QUICS (Quarterly Income Capital Securities), QUIDS (Quarterly Income Debt Securities), QUIPS (Quarterly Income Preferred Securities), etc.

- What method should be utilized to determine an equivalent fixed rate instrument when determining premium on variable rate debt instruments?
- What changes, if any, has the IRS contemplated for fixed income 1099-B reporting?
- If reporting is required only once a year then are brokers required to compute and display adjustments for premiums and OIDs on a more frequent basis? Such as per accrual period, per payment frequency, semi-annually, daily, etc.
- What if the bond does not have YTM at the time of purchase (e.g., floating rate bonds, equity linked notes, etc)? How are we to do cost basis adjustments using constant yield method? Will these be covered securities, and if so, how are the yield calculations applied?
- Is our obligation to report adjusted interest income based on amortized or accrued premium/discount?
- Will the premium on tax-exempt instruments continue to be amortized and reported under current practices or will that change?
- With regard to adjusting bond premium and the 171 election: Is the election assumed to be for year bond is acquired and all subsequent years that bond is held? Is this applicable to both taxable and non-taxable bonds? Does this election assumption vary for bonds issued prior to a certain date?
- Is there an existing list of debit securities (i.e. pass-through) that are not covered?
- Are bonds issued prior to 2013 considered covered securities? i.e. the date of acquisition by a customer controls and not the date of issuance of the instrument?
- What is the definition of substantially identical in options? Unlike stock and bonds; there are no cusip(s) to identify options. The industry relies on the OSI symbol. This becomes an issue when there are symbol changes as a result of corp. actions.
- To properly calculate the holding period of a security, the initial purchase date would have to transfer with the ownership interest to the resulting security. Can we rely on the following to indicate Substantially Identical: Deliverable (underlier and qty) + Strike + Date + Product Specifications? Note the result: In cases of corp actions effecting qty, strike, or deliverable, those are not substantially identical.
- Is the Broker responsible for adjusting for Wash Sales on 1256 contracts?

Appendix II: Fixed Income Cost Basis Components

Asset Type	Covered Under Proposed Regulations	Data required report on 1099 OID	Data required to amortize/accrete bond discount and Premium	Data Source
Corporate Bond	Y	• Issue Date • Issue Price • Adjusted Issue Price • Redemption Price • Any Qualified Stated Interest payment amounts (available in broker trading system) • Any Non Qualified Stated Interest amounts (need to report as OID and is included in redemption price of bond)	• Interest Rate • Coupon Periods • Maturity Date (to calculate YTM) • Call Dates	• Security Master • Trading System • External Data Vendor(s)*
Municipal Bond	Y	• Issue Date • Issue Price • Adjusted Issue Price • Redemption Price • Any Qualified Stated Interest payment amounts	• Interest Rate • Coupon Periods • Maturity Date (to calculate YTM) • Call Dates	• Security Master • Trading System • External Data Vendor(s)*
Government Agency Bonds (foreign)	Y	• Issue Date • Issue Price • Adjusted Issue Price • Redemption Price • Any Qualified Stated Interest payment amounts	• Interest Rate • Coupon Periods • Maturity Date (to calculate YTM) • Call Dates	• Security Master • Trading System • External Data Vendor(s)*
US Agency Bonds	Y	• Issue Date	• Interest Rate	• Security Master

* There is no one vendor that provides reliable information for all required data sources. It requires compiling information from multiple vendors for rates, coupon periods, maturity dates, call dates and OID information.

Asset Type	Covered Under Proposed Regulations	Data required report on 1099 OID	Data required to amortize/accrete bond discount and Premium	Data Source
		• Issue Price • Adjusted Issue Price • Redemption Price • Any Qualified Stated Interest payment amounts	• Coupon Periods • Maturity Date (to calculate YTM)	• Trading System • External Data Vendor(s)*
Private Debt	Y	• Issue Date • Issue Price • Adjusted Issue Price • Redemption Price • Any Qualified Stated Interest payment amounts	• Interest Rate • Coupon Periods • Maturity Date (to calculate YTM)	• Security Master • Trading System • External Data Vendor(s)*
Treasury Note	Y	• Issue Date • Issue Price • Adjusted Issue Price • Redemption Price • Any Qualified Stated Interest payment amounts	• Interest Rate • Coupon Periods • Maturity Date (to calculate YTM)	• Security Master • Trading System • Vendor External Data Vendor(s)*
Treasury Bond	Y	• Issue Date • Issue Price • Adjusted Issue Price • Redemption Price • Any Qualified Stated Interest payment amounts	• Interest Rate • Coupon Periods • Maturity Date (to calculate YTM)	• Security Master • Trading System External Data Vendor(s)*
Treasury Strip	Y	• Issue Date • Issue Price • Adjusted Issue Price • Redemption Price • Any Qualified Stated Interest payment amounts	• Interest Rate • Coupon Periods • Maturity Date (to calculate YTM)	• Security Master • Trading System • Vendor • External Data Vendor(s)*

* There is no one vendor that provides reliable information for all required data sources. It requires compiling information from multiple vendors for rates, coupon periods, maturity dates, call dates and OID information.

Asset Type	Covered Under Proposed Regulations	Data required report on 1099 OID	Data required to amortize/accrete bond discount and Premium	Data Source
Treasury Inflation Protection Security/ Inflation Indexed Securities	Y	• CPI period-end • CPI period-begin • CPI Issue Date • PAR	• CPI period-end • CPI period-begin • CPI Issue Date • PAR • Amount Issued • Amount Outstanding	• Security Master • Trading System • External Data Vendor(s)*
Variable Rate Bonds	Y	• Issue Date • Issue Price • Adjusted Issue Price • Redemption Price • Any Qualified Stated Interest payment amounts	• Interest Rate • Coupon Periods • Maturity Date (to calculate YTM) • Call Dates • Rate Schedules	• Security Master • Trading System • External Data Vendor(s)*
Interest Paying Debt Issued as at a discount	Y	• Issue Price • Adjusted Issue Price • Redemption Price • Any Qualified Stated Interest payment amounts (available in broker trading system) • Any Non Qualified Stated Interest amounts (need to report as OID and is included in redemption price of bond)	• Interest Rate • Coupon Periods • Maturity Date (to calculate YTM) • Call Dates	• Security Master • Trading System • External Data Vendor(s)*
Fixed Rate Capital Trust Securities (Hybrid Preferreds)	Y	• Issue Price • Adjusted Issue Price • Redemption Price • Any Qualified Stated Interest payment amounts (available in BP&T)	• Unknown what data elements would be required to calculate or if is required.	• Security Master • Trading System • Vendor • External Data Vendor(s)*

* There is no one vendor that provides reliable information for all required data sources. It requires compiling information from multiple vendors for rates, coupon periods, maturity dates, call dates and OID information.

Asset Type	Covered Under Proposed Regulations	Data required report on 1099 OID	Data required to amortize/accrete bond discount and Premium	Data Source
		• Any Non Qualified Stated Interest amounts (need to report as OID and is included in redemption price of bond) • Bond Unit Factor		
Equity Unit Trusts	Y	• Issue Price • Adjusted Issue Price • Redemption Price • Any Qualified Stated Interest payment amounts (available in BP&T) • Any Non Qualified Stated Interest amounts (need to report as OID and is included in redemption price of bond) • Bond Unit Factor	• Unknown what data elements would be required to calculate or if is required.	• Security Master • Trading System • External Data Vendor(s) *
Payment in Kind Bonds	Y	• Issue Date • Issue Price • Maturity Date • Coupon – Initial and Step • Redemption value • PIK Accrual Schedule	• Interest Rate • Coupon Periods • Maturity Date (to calculate YTM) • Call Dates	• Security Master • Trading System • External Data Vendor(s)
Contingent Payment Securities	Y	• Issue Price • Adjusted Issue Price • Redemption Price • Any Qualified Stated Interest payment amounts	• Unknown what data elements would be required to calculate or if is it required.	• Security Master • Trading System • External Data Vendor(s)*

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Asset Type	Covered Under Proposed Regulations	Data required report on 1099 OID	Data required to amortize/accrete bond discount and Premium	Data Source
		(available in BP&T) • Any Non Qualified Stated Interest amounts (need to report as OID and is included in redemption price of bond) • Expected Return provided by Issuer • Projected Payment Schedule to match		
Certificates of Deposits – Market Place	Y	• Issue Price • Adjusted Issue Price • Redemption Price	• Interest Rate • Coupon Periods • Maturity Date (to calculate YTM) • Call Dates	• Security Master • Trading System External Data Vendor(s)*
Certificates of Deposit – non market place	Y	• Issue Price • Adjusted Issue Price • Redemption Price	• Interest Rate • Coupon Periods • Maturity Date (to calculate YTM) • Call Dates	• Security Master • Trading System • External Data Vendor(s)*

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