

TAAC CBR Task Force  
Fund Checklist for Mandatory Cost Basis Reporting Implementation  
June 23, 2011

Category	Topic	Reference Materials	Status/Comments
Fund Policies	Select a default cost basis reporting method.	For, ICI Cost Basis Reporting Member Resource Page go to your Committee page on the ICI website or from the home page go to Policy Issues, Taxes, more Taxes. If you are logged into the website you can use this link. <a href="http://www.ici.org/policy/tax/cost_basis_reporting">http://www.ici.org/policy/tax/cost_basis_reporting</a>	
	Determine what standing instruction methods will be supported.		
	Determine whether cost basis reporting will be voluntarily provided on noncovered shares. If so, decide if it will be provided only to shareholders or also to the IRS.		
	Decide how noncovered shares will be depleted absent a shareholder instruction, where covered and noncovered shares are in deemed separate accounts.	Access the Supplemental User Guide for Mutual Funds, Chapter 3, Section 3.1, Lot Depletion Methodology using this link. <a href="http://www.dtcc.com/products/documentation/cs/cbrs.php">http://www.dtcc.com/products/documentation/cs/cbrs.php</a>	
	Develop a policy for accepting blanket elections, including whether the fund will support blanket elections for similar account registrations and for future accounts.		

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	Determine fund policy on making single account elections, where the shareholder has selected average cost.		
	Decide on a revocation policy for shareholders that select average cost (e.g., whether the fund will extend the period beyond one year).		
	Determine what constitutes an electronic writing for average cost elections, changes and revocations.		
	Set a policy for accepting shareholder provided information, in cases where the accuracy standard is met.		
	Determine a policy for transferring cost basis when accounts transfer due to administrative actions and do not involve a change in ownership (e.g., class B to A flips, non-taxable fund mergers, etc.).		
	For the true specific ID method, determine fund policy if, 1) lot selection is not made timely on shareholder initiated redemptions, exchanges or transfers, 2) the shareholder has authorized automated transactions such as SWPs, or 3) shares are redeemed by the fund to cover account charges.		

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Vendor Oversight	Identify all service providers impacted by cost basis reporting (e.g., transfer agents, external call centers, portal providers, output vendors, web vendors, IT/systems vendors).		
	Review service provider contracts to determine whether amendments are necessary.		
	Request periodic updates from service providers on preparedness for mandatory cost basis reporting implementation.		
	Develop processes for ongoing communication of fund cost basis information to portal providers and other vendors.		
	Work with service providers to determine how cost basis information will appear on vendor media.		
	Discuss testing of vendor systems and processes for mandatory cost basis reporting.		
Intermediary Support	Contact DTCC to sign up for the Cost Basis Reporting Service (“CBRS”).	See ICI memo 25256 or use this link to access CBRS information on the DTCC website. <a href="http://www.dtcc.com/products/cs/equities_clearance/cbrs.php">http://www.dtcc.com/products/cs/equities_clearance/cbrs.php</a>	

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	Develop policies for accepting cost basis information received from intermediaries on transfers of noncovered securities.		
	Prepare to communicate cost basis information on transfers through CBRS.	Use this link to access to the CBRS User Guide and the Supplemental user Guide for Mutual Funds. <a href="http://www.dtcc.com/products/documentation/cs/cbrs.php">http://www.dtcc.com/products/documentation/cs/cbrs.php</a>	
	For NSCC matrix level 0 and level 4 accounts (i.e., “direct at fund”/fund controlled accounts), excluding “trust Networked” accounts, make changes to existing processes so that the fund TA handles all cost basis communications for these accounts including, tax reporting, sending/receiving transfer statements, and recording customer basis method elections and lot selections on redemption, transfer and exchange transactions.	Best practice recommendation for fund controlled accounts can be accessed using this link. <a href="http://www.ici.org/my_ici/memorandum/memo24397">http://www.ici.org/my_ici/memorandum/memo24397</a>	
	Provide information to intermediaries with “direct at fund”/fund controlled accounts for accessing shareholder cost basis information through fund portals.		

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	Promote the use of CBRS through DTCC's WebDirect product to those intermediaries that will not have a mainframe connection to CBRS, either directly or through a vendor.	See Chapter 7 of the CBRS User Guide for information on accessing CBRS through WebDirect. <a href="http://www.dtcc.com/products/documentation/cs/cbrs.php">http://www.dtcc.com/products/documentation/cs/cbrs.php</a>	
	Work with intermediaries that are not participating in CBRS to develop processes for providing and receiving cost basis reporting information.		
	Establish processes for requesting a transfer statement if not received within 15 days of the settlement date of a transaction, for transfers through CBRS and transfers done manually.	For CBRS transfers, see CBRS User Guide, Chapter 5, Section 5.5. <a href="http://www.dtcc.com/products/documentation/cs/cbrs.php">http://www.dtcc.com/products/documentation/cs/cbrs.php</a>	
	Develop procedures for transfers where cost basis information is not received from the transferor after requesting the transfer statement (e.g., shares become noncovered). Procedures should consider transfers done through CBRS and manually.		
	Review communication procedures for fund corporate actions (e.g., returns of capital, fund mergers) and bring them into compliance with the issuer statement requirements in the final rules.	ICI memo 24610 on final CBR rules. <a href="http://www.ici.org/my_ici/memorandum/memo24610">http://www.ici.org/my_ici/memorandum/memo24610</a>	

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	Develop procedures for sending corrected transfer statements, both via CBRS and manually.	For CBRS transfers see CBRS Users Guide, referenced above.	
	Consider testing of new processes with intermediaries.		
Shareholder Support	Determine how cost basis procedures will be integrated into the operations and call center environments (e.g., integration into general operating environment, establishing “center of excellence” for routine/complex cost basis inquiries/processing). Evaluate resulting changes in staffing needs.		
	Develop procedures for supporting basis elections received from both new and existing shareholders (e.g., new account set-up procedures).		
	Develop procedures for identifying existing/new accounts that fall within a shareholder’s blanket election, subject to fund policy.		
	For funds that intend to make single account elections, develop shareholder communication and due diligence procedures for determining if an account qualifies for the single account election.	Use this link to access IRS FAQ #55. <a href="http://www.irs.gov/taxpros/article/0,,id=237099,00.html">http://www.irs.gov/taxpros/article/0,,id=237099,00.html</a>	

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	For instances where a single account election is made, develop procedures for reflecting the single account election on shareholder records, confirming the election to the shareholder and adjusting cost basis information.		
	Develop procedures for receiving and processing shareholder/broker instructions to change cost basis methods.		
	Develop procedures for receiving and processing shareholder instructions to revoke average cost method elections that the shareholder previously made.		
	Develop procedures for receiving and processing shareholder/broker instructions to specifically identify lots to be depleted in connection with redemptions, exchanges or transfers.		
	For funds that accept shareholder provided information, develop procedures for conducting due diligence on the cost basis information and for processing information that meets the accuracy standard in the final cost basis reporting rules.	The final rules can be accessed through ICI memo 24606. <a href="http://www.ici.org/my_ici/memorandum/memo24606">http://www.ici.org/my_ici/memorandum/memo24606</a>	

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	Update/develop call center scripts to enable phone reps to respond to cost basis reporting inquiries and to solicit/accept shareholder instructions for cost basis reporting.		
	Draft form correspondence for cost basis reporting and integrate the correspondence into the operating environment.		
Shareholder Communications	Draft language to communicate important cost basis reporting concepts/information to shareholders. Develop appropriate disclosure language.	Shareholder communications document: <a href="http://www.ici.org/pdf/25197.pdf">http://www.ici.org/pdf/25197.pdf</a>	
	Identify existing fund documents and forms that will be updated to include cost basis reporting information (e.g., prospectus, new account applications, confirms, account statements, tax forms, redemption instructions, etc.)		
	Modify existing forms and documents, and deploy updated versions.		
	Develop a strategy for communicating cost basis reporting information to shareholders (e.g., inserts to go with statements and tax forms, fund company website, email blasts, separate mailings, etc.)		

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	Solicit shareholder elections for cost basis reporting method.		
	Solicit corporate shareholders to identify C Corps and S Corps and recertify TINs by providing updated W9s.	New W9 & instructions: <a href="http://www.irs.gov/pub/irs-pdf/fw9.pdf">http://www.irs.gov/pub/irs-pdf/fw9.pdf</a> <a href="http://www.irs.gov/pub/irs-pdf/iw9.pdf">http://www.irs.gov/pub/irs-pdf/iw9.pdf</a>	
	Identify existing web applications to be updated to provide cost basis information. Modify existing web applications and deploy updated versions. (e.g., online redemption requests, online account opening, etc.).		
	Identify and develop new web interfaces specific to cost basis reporting (e.g., hypothetical cost basis calculator tools, shareholder cost basis reporting history).		
	Identify and develop enhancements to VRU options for cost basis reporting (e.g., redemption requests, etc.)		
	Program to support changes to existing output (e.g., Form 1099B, shareholder confirms and account statements).	New 1099B & instructions: <a href="http://www.irs.gov/pub/irs-pdf/f1099b.pdf">http://www.irs.gov/pub/irs-pdf/f1099b.pdf</a> <a href="http://www.irs.gov/pub/irs-pdf/i1099b.pdf">http://www.irs.gov/pub/irs-pdf/i1099b.pdf</a>	
	Develop any new output needed to support cost basis reporting.		

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	Consider testing of new shareholder communications.		
Employee Training	Develop and deploy general education materials on cost basis reporting and cost basis calculation methods.		
	Provide training to operations staff on new policies and procedures for transaction processing.		
	Train call center staff on new policies and procedures, new processing forms, and scripts amended for cost basis reporting requirements.		
	Provide training for broker/distribution support staff.		
	Train on processing of new W-9s and other inquiries related to S Corps and C Corps.		
	Educate employees on changes to the 1099B and other shareholder facing output (e.g., statements, confirms).		
	Provide training for employees responsible for inquiries on advanced concepts including gifted shares, inherited shares, expired W-8s for non-resident aliens, corrections, shareholder provided information and issuer statements.		

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	Provide education on new tools for assisting shareholders with cost basis method selection and interfaces for cost basis reporting (e.g., hypothetical cost basis calculators, online redemption request tools, online cost basis history).		
	Educate employees on cost basis adjustment procedures (e.g., method changes, revocations, corrections, etc.).		
	Train employees on transfer processing procedures, to include providing and receiving cost basis information.		
	Provide training on issuer statement processes for providing corporate action information (e.g., return of capital, fund mergers).		