SUNGARD ASSET ARENA

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Brave New World of Cost Basis Reporting Presents Opportunities To Early Adaptors

If asset managers tried to implement a change in the tax code that would require their clients to reach out to them to address their need for solutions that incorporated operational efficiency, client service and compliance transparency, they could not have wished for more than the upcoming cost basis changes scheduled for January 1, 2011.

Think of cost basis reporting activities as a way to jump start business improvements in customer service and improve process efficiency by streamlining IT infrastructure.

While addressing cost basis requirements, you may also impact and foster better transparency with clients and find ways to help grow your businesses.

The final regulations have only recently been released and there's just a short window of time to respond to topics of concern such as the following:

- **To gift or not to gift**
  While some industry groups believe that Congress intended to exempt gifted and inherited shares from cost basis reporting, the IRS included them in the final regulations. Gifting rules are still complicated, potentially requiring multiple valuations to be tracked on the same shares.

- **The role of Single Account**
  The final regs appear to have tried to facilitate the eventual roll up of average cost lots. However, in deciding that shareholders must make an affirmative election of Average Cost before a Single-Account option can be pursued, the final regs actually drastically reduced the ability to use Single-Account average cost. This is definitely not shareholder-friendly.

In addition to these factors, other operational considerations include:

- Migration of client data onto new or significantly modified platform(s) to handle cost basis tracking and reporting
- Education of the back-office and front-office workforce on the new capabilities
- Buy-in on the need for CBR quality control

Brave new world of cost basis reporting will not be "business-as-usual"

The factors surrounding implementation quickly add up and touch numerous operations.

Even those entities that rely on third-party vendors will not be immune from the challenges.

The time for decisive action is now — work plans, staffing, and budgets should be in place as soon as practicable to help allow sufficient time to meet the deadline.

Noncompliance comes with a cost

All asset managers must address technology and data issues now if they are to ensure future compliance with the regulations. Firms that do not assess and modify their current systems risk both customer service disruptions and significant tax penalties.

Furthermore, with requirements that are highly transparent — and yet somewhat confusing — for investors, those companies that take their customer relationships lightly could face a diminished reputation in a highly competitive environment.

Timely cost basis reporting offers distinctive benefits

Cost basis is not just about tax systems or even compliance.

Rather than seeing cost basis compliance solely as fulfilling an obligation, firms can use it as an opportunity to distinguish themselves. Those who deal with this challenge efficiently by employing smart models, strong support and an appropriate degree of automation will be able to increase their competitiveness and also gain the trust of their clients. With so much uncertainty and confusion surrounding the new cost basis rules, investors want reassurance that their investment management firms, not only understand the requirements, but can handle them effectively.

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