

Cost Basis and Complex Bonds 12.09.2015

To date, we have completed various phases of the new tax reporting rules for cost basis. The first phase took effect on January 1, 2011, and addressed equities. The second phase, which began January 1, 2012, expanded to mutual funds. On April 18, 2015 the US Treasury Department and IRS released the final regulations for cost basis reporting of debt instruments. This is the third and final implementation phase of the cost reporting law, contained within the Energy Improvement and Stabilization Act of 2008.

Debt Instruments:

- Phase III implementation will involve much more complexity and many more challenges than did complying with Phase I or II regulations, due to the inherently more complex nature of debt vs. equity securities.
- Phase III implementation for debt instruments is broken down in phases
 - January 1, 2014 – Reporting commences for fixed-yield, fixed-maturity-date debt instruments with less complex features (referred to as “simple” debt instruments) acquired on or after January 1, 2014. TCA completed all necessary work to be compliant with the reporting deadline.
 - January 1, 2016 – Reporting commences for other debt instruments that pose reporting challenges and are acquired on or after January 1, 2016. These are referred to as complex debt instruments, examples include:
 - Zero Coupon Treasury Strips
 - Variable Rate Debt Instruments (VRDI)
 - Taxable Municipal bonds
 - Foreign Bond
 - Tips
 - Convertible Rate Debt Instruments (CRDI)

TCA will be compliant with the reporting requirements for the following types of complex fixed income products and will continue to custody and report for the following:

- Zero Coupon Treasury Strips
- Variable Rate Debt Instruments (VRDI)
- Taxable Municipal bonds

TCA will not allow any new purchases of the below complex debt instruments nor accept via ACATS beginning January 1, 2016, for the following:

- Foreign Bonds
- Tips
- Convertible Rate Debt Instruments (CRDI)

To determine if TCA can/cannot hold such a debt instrument, please provide to your relationship manager the CUSIP and Bond Description for us to review and let you know.

Please let your relationship manager know of questions you may have.