October 1, 2010

Preparing for Cost Basis Changes

As you may know, cost basis reporting requirements are changing. New legislation passed by Congress in 2008 requires brokers to report cost basis to the IRS and taxpayers starting with tax year 2011. This change represents a shift in the way you and your advisor will approach cost basis.

We understand that you may have questions about what this means for you and what Stifel is doing to comply. On the following pages, you'll find answers to frequently asked questions about the changes the legislation will bring, as well as charts designed to give you a snapshot of how the changes will roll out over the next three years.

Stifel is dedicated to keeping you informed and to working closely with you and your advisor through this transition. If you have further questions or would like more information, please contact your Financial Advisor.

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Cost Basis—Frequently Asked Questions

What is the new cost basis legislation?

Congress passed the Emergency Economic Stabilization Act on October 3, 2008, which requires brokers to report adjusted cost basis for taxable accounts to the IRS and taxpayers via Form 1099-B starting with tax year 2011. Today, Stifel only reports gross proceeds on sales for taxable accounts. The legislation applies to securities acquired on or after the effective date as follows:

- January 1, 2011, for equities
- January 1, 2012, for mutual funds, ETFs and dividend reinvestment plans (DRPs)
- January 1, 2013, for other securities (including fixed income and options)

The legislation also requires that the new Form 1099-B indicate if the gain or loss is short- or long-term, and the amount of any loss disallowed under the wash sale rules.

What is cost basis vs. adjusted cost basis?

Original cost basis is the purchase price of a security plus commissions and other fees. The adjusted cost basis is the original cost basis and any adjustments due to wash sales, amortization and accretion, and corporate actions.
Cost basis is used to determine capital gains and losses of an investment for tax purposes.

What are covered and uncovered securities?

Covered refers to securities acquired on or after the effective dates in the legislation (January 1 of 2011, 2012 or 2013). *Uncovered* refers to securities acquired prior to the effective dates. Stifel will report cost basis for covered securities to the IRS and taxpayers on Form 1099-B. Taxpayers remain responsible for reporting cost basis for all uncovered and covered securities to the IRS on their tax returns. See Sample Positions on page 6 and Covered and Uncovered Securities on page 5.

How does this legislation affect me?

If you acquire and sell a security in a taxable account on or after the effective date (i.e., equities on or after January 1, 2011), Stifel will report cost basis for the sold security to you and the IRS on Form 1099-B.

If you have a mix of covered and uncovered positions in the same security, Stifel will report cost basis to you and the IRS for any covered positions that are sold. We will apply the FIFO (First In First Out) default method for equities unless you inform us of another preferred method. **Your cost basis method for all equity transactions will be final by the settlement date.**

If you choose to change the FIFO default method for equities to another method, you can do so at any time by notifying your Financial Advisor. If you wish to change the method for a specific trade, you must notify your Financial Advisor of the change before the settlement date. **The cost basis method cannot be changed after settlement.**

See the Covered and Uncovered Securities chart on page 5.

How do I account for missing cost basis on securities when I sell after the law is in effect?

First, determine if the security was purchased at Stifel and if the cost basis is missing. If the security was purchased elsewhere and the cost basis was not transferred to Stifel, you or your Financial Advisor should try to locate your original statements and trade confirmations or request copies from your other brokers to obtain cost basis for your securities. If you are unable to obtain the original purchase information, refer to a tax advisor or the IRS for advice.

The IRS may allow the use of an estimate, such as the average for the day purchased or approximate time frame of the purchase. The IRS may require you to report “zero” if you can’t prove the cost basis, so whenever you use an estimate, we strongly encourage you to consult with a qualified tax advisor, CPA, financial planner or investment manager.

What is Stifel’s cost basis default method?

Stifel’s default method for sold securities is FIFO (First In First Out). Please contact your advisor for more information.

What cost basis methods are available at Stifel?

A tax lot consists of one or more shares of a security purchased at the same price on the same day. The cost basis method determines which lots are sold first.

- For all sold securities in addition to the FIFO default method, Stifel offers:
- Last In First Out (LIFO): The lots you acquired last are sold first.
- High In First Out (HIFO): The lots with the highest cost are sold first.
- Specific share identification: You can elect to override the above cost basis methods at the time of trade by designating a specific tax lot, also known as versus purchase (VSP) and specific ID.

Additional Lot Relief Methods will be available in the near future such as:

- Average cost for mutual funds.
- Highest Cost Long Term (HCLT): The lots with the highest cost generating long term gains/losses will be sold first.
- Highest Cost Short Term (HCST): The lots with the highest cost generating short term gain/loss will be sold first.
- Lowest Cost First Out (LOFO): The lots with the lowest cost will be the first sold
- Lowest Cost Long Term (LCLT): The lots with the lowest cost generating long term gain/loss will be sold first.
- Lowest Cost Short Term (LCST): The lots with the lowest cost generating short term gain/loss will be sold first.
- Maximum Loss Minimum Gain (MLMG): The lots generating the maximum loss or generating minimum gain will be sold first.

When can a cost basis method be changed?

Other than for securities using average cost, the default cost basis method can be changed at any time, and the new default will be applied for all future trades.
If you wish to assign a specific lot (versus purchase) to a particular trade, you may do so at the time of trade or before the trade settles. Cost basis method for the specific trade cannot be affected after the trade settles.

How will this legislation affect wash sales?

Stifel will adjust losses on wash sales that occur in the same account with identical shares (same CUSIP) to the IRS. Although you are not allowed to claim the loss on a wash sale, the disallowed amount is added to the cost of the repurchased security, enabling you to recognize the loss when the security is finally sold. This rule only applies to losses. Gains must be reported even if the same or similar shares are purchased within 30 days of the sale. Stifel will be required to report the disallowed amount to the IRS.

It is possible that you could have other situations that contribute to a wash sale that brokers are not required to report.

Covered and Uncovered Securities

The legislation will roll out in three phases, as listed in the chart below. Covered securities are those acquired on or after the applicable dates outlined by the legislation. Securities acquired by clients before these dates are uncovered by the legislation. Brokers are not required to report cost basis on uncovered securities. Taxpayers are responsible for accurate reporting of cost basis on covered and uncovered securities to the IRS on their tax returns.

	Covered Securities	Uncovered Securities
Broker vs. Taxpayer Responsibility	Brokers will report cost basis to IRS and taxpayer on Form 1099-B. Taxpayer will use Form 1099-B data in preparing their tax return filing for 2011 and following years.	Taxpayer will report cost basis to IRS.
Equities*	Acquired on or after Jan. 1, 2011	Acquired prior to Jan. 1, 2011
Mutual funds, dividend reinvestment plan (DRIP) shares and ETFs**	Acquired on or after Jan. 1, 2012	Acquired prior to Jan. 1, 2012
Other specified securities, including fixed income and options***	Acquired on or after Jan. 1, 2013	Acquired prior to Jan. 1, 2013

*Equities include corporate stock (other than stock in a regulated investment company [RIC] or stock acquired in connection with a dividend reinvestment plan [DRIP]). Internal Revenue Code section 6045(g)(3)(C)(i) provides that the applicable date is January 1, 2011.

**For stock in a RIC (RIC stock) or stock acquired in connections with a DRIP (DRIP stock), section 6045(g)(3)(C)(ii) provides that the applicable date is January 1, 2012.

*** For any other specified securities, section 6045(g)(3)(C)(iii) provides that the applicable date is January 1, 2013, or a later date to be determined in the future. The reporting rules related to options transactions apply only to options granted or acquired on or after January 1, 2013, as provided in section 6045(h)(3).

This chart shows a sample of positions as of June 30, 2011.

Equity Holdings	Quantity	Market Price	Market Value	Assets Acquired	Unrealized Gain (or Loss)	Holding Period
	Units Purchased	Cost Per Share	Cost Basis			
IBM	600	$26.0000	$15,600.00		($2,400.00)	
	600	$30.0000	$18,000.00	2/26/2001	($2,400.00)	Long-Term
General Electric	4,050.00	$102.5300	$415,246.50		$11,320.00	
	1,850.00	$100.0500	$185,092.50	3/25/2011	$4,588.00	Short-Term
	2,200.00	$99.4700	$218,834.00	5/10/2002	$6,732.00	Long-Term
GE Cost Basis			$403,926.50			
Chevron	2,000.00	$125.3846	$250,769.20		$52,769.20	
	2,000.00	$99.0000	$198,000.00	5/20/2005	$52,769.20	Long-Term
Apple Inc	7,000.00	$81.2520	$568,764.00		$88,696.40	
	3,000.00	$67.2234	$201,670.20	5/15/2011	$42,085.80	Short-Term
	3,500.00	$70.2564	$245,897.40	5/12/2005	$38,484.60	Long-Term
	500.00	$65.0000	$32,500.00	2/26/2001	$8,126.00	Long-Term
Apple Cost Basis			$480,067.60			
Total Equities			$1,250,379.70		$150,385.60	
Total Cost Basis			$1,099,994.10			

"Covered Securities" under the legislation and therefore reportable to the IRS by Stifel once sold.
"Uncovered securities" and therefore reportable to the IRS by the account holder (taxpayer) once sold.

IRS Circular 230 Disclosure

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