Stephens Inc.
New IRS Cost Basis Reporting Regulations

The Emergency Economic Stabilization Act, passed by Congress on October 3, 2008, requires financial institutions to report adjusted cost basis for tax reportable accounts to the IRS and clients (taxpayers) via Form 1099-B beginning with tax year 2011. The mandatory cost basis reporting will be phased-in over three years and applies to "covered" securities acquired on or after the following effective dates:

- **January 1, 2011: Stocks (including Foreign Securities and ADRs)**
- **January 1, 2012: Mutual Funds and Dividend Reinvestment Plans (DRPs)**
- **January 1, 2013: Fixed Income, Options and other IRS determined securities**

The legislation requires that the new Form 1099-B indicate if the gain or loss is short or long-term.

What is the difference between "covered" and "non-covered" securities?

Covered refers to securities acquired on or after the effective dates in the legislation, as listed above. *Non-covered* refers to securities acquired prior to the effective dates, or purchased at any time by entities that are exempt from 1099-B reporting. Stephens Inc. will report cost basis for covered securities to the IRS and our clients on Form 1099-B. Clients are responsible for reporting cost basis for all non-covered and covered securities to the IRS on their tax return. *Please consult with your tax professional for any and all tax advice.*

How am I affected by this new legislation?

If you acquire and sell a security in a tax reportable account on or after the effective date (e.g., stocks on or after January 1, 2011), Stephens Inc. will report cost basis for the sold security to you and the IRS on Form 1099-B. If you own a combination of covered and non-covered positions in the same security, Stephens Inc. will report cost basis to you and the IRS for any covered positions that are sold.

What is the Stephens Inc. default cost basis method?

The Stephens Inc. default cost basis method is First In First Out (FIFO). We will apply the FIFO method for all sold securities unless you specifically select an alternate method *before* the settlement date of the trade. If you wish to assign a specific tax lot (versus purchase) to a particular trade, you should do so at the time of trade, or before the trade settles. The cost basis method for the specific trade *cannot* be changed after the trade settles.

How does cost basis reporting affect wash sales?

Stephens Inc. will adjust losses on wash sales (purchases and subsequent sales) that occur in the same account with identical shares (same CUSIP). 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 deferred 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. Stephens Inc. will be required to report the disallowed amount to the IRS.

Will cost basis on short sales be reported to the IRS?

Beginning in 2011, short sales will be reported in the year they are closed. Gain(s)/loss(es) and short/long-term status will be calculated and reported.

What cost basis information is needed for gifted and inherited securities?

Gifted: Donor's acquisition date and cost, the date of the gift, and the asset valuation on the date of the gift, if known. **Inherited:** Financial institutions must report the date of death (as the acquisition date) and the cost basis valuation provided by an authorized representative of the estate.

What does my Stephens Inc. Financial Consultant need from me now?

Please contact your Stephens Inc. Financial Consultant if you would like to establish a standing order cost basis method *other* than FIFO *before* these new regulations become effective on January 1, 2011.

Who may I contact for additional information?

Please contact your Stephens Financial Consultant for general information regarding this new legislation. As always, contact your tax professional for any and all tax advice.