



# Phase III Cost Basis Reporting: A Guide to Complying with Expanded Transfer Statement Information Requirements

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White Paper

**Abstract:** In April 2013, the U.S. Treasury Department and IRS issued [final regulations for Phase III of the Cost Basis Reporting \(CBR\) requirements](#), which address certain securities futures, debt instruments and options. This paper explains how to comply with the Expanded Transfer Statement Information Requirements (§1.6045A-1) set forth in this third and final implementation phase of the CBR reporting law contained within the Energy Improvement and Extension Act of 2008. According to the Transfer Statement Enhanced Information Requirements, when a broker transfers certain securities futures contracts, debt instruments, and options (as defined by §1.6045-1(a)(18)) to another broker, key pieces of data must be reported to the receiving broker. This reporting is mandatory for transfers on or after January 1, 2015, when the securities are acquired after January 1, 2014.

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## REPORTING REQUIREMENTS

As part of the CBR law, introduced by the Emergency Economic Stabilization Act of 2008 (H.R. 1424), brokers, as part of their information reporting responsibilities, are required to report more information to both the IRS and the taxpayer whenever a position in what is considered a covered security is closed. In Phase III, some bonds, options, and securities futures contracts acquired starting in 2014 are considered covered securities. Starting in 2015, these newly covered securities must comply with enhanced transfer reporting requirements. The transferring broker must provide one set of data per security per acquisition date to the receiving broker.

Stating the obvious, purchases and sales are not transfers. Section 1256 options are exempt from transfer reporting.

The transfer statement must be available within 15 days of the transfer. If within 18 months after furnishing such statement the transferring broker receives corrections from its upstream data source, the broker must supply a corrected transfer statement within 15 days of receiving that correction report. Unless the transferring and receiving brokers have made other arrangements, the transfer statement must be in writing. The regulation further stipulates what information must be made available. The transferring and receiving brokers have a considerable amount of flexibility to work out the mechanism of the transfer statement. Each of the three newly covered security types requires slightly different information.

## SECURITIES FUTURES CONTRACTS

As with reporting cost basis, securities futures contracts can be reported in the same manner that stocks are reported.

### Example 1 – Securities Futures Contracts

A broker executes trades for an investor. On December 12, 2013, the investor buys 100 securities futures contracts XYZ for \$3 each. On January 14, 2014, the investor buys another 75 contracts for \$4 each; and on February 14, 2014, another 50 contracts for \$5 each. On August 12, 2014, the investor transfers the entire holding to another broker.

The transfer statement might contain the following information:

	The Buy on Dec 12, 2013	The Buy on Jan 14, 2014	The Buy on Feb 14, 2014
Statement Date	August 15, 2014	August 15, 2014	August 15, 2014
Applicable person effecting transfer	[The Broker's Name] [Address] [And Phone Number]	[Same]	[Same]
Broker receiving Custody	[New Broker's Name] [Address] [And Phone Number]	[Same]	[Same]
From Customer	[From-Customer Name] [And Account#]	[Same]	[Same]
To Customer	[To-Customer Name] [And Account#]	[Same]	[Same]
Security Identifier	100 XYZ [CUSIP: SFCXYZ] <i>[Noncovered OR Securities Futures Contract]</i>	75 XYZ [CUSIP: SFCXYZ] Securities Futures Contract	50 XYZ [CUSIP: SFCXYZ] Securities Futures Contract
Original Acquisition Date	<i>December 12, 2013</i> <i>[OPTIONAL]</i>	January 14, 2014	February 14, 2014
Adjusted Acquisition Date	<i>December 12, 2013</i> <i>[OPTIONAL]</i>	January 14, 2014	February 14, 2014
Transfer Date	August 12, 2014	August 12, 2014	August 12, 2014
Transfer Settle Date	August 15, 2014	August 15, 2014	August 15, 2014
Total Adjusted Basis	<i>\$300 [OPTIONAL]</i>	\$300	\$250

Note that the buy of 100 XYZ on December 12, 2013, is a non-covered security. The broker may identify it as non-covered and may choose not to report the three fields shown in blue.

## OPTIONS

If an option is covered, then several additional pieces of information must be reported:

1. The grant date or acquisition date
2. The premium paid or received
3. Sufficient information to describe the option. If the CUSIP or the identifier on an exchange-traded option are not applicable, information on the following can be provided: details of the put/call, underlier, strike price, quantity, expiration, etc.

An option that is a section 1256 option does not need a transfer statement at all, the reason being that each broker will issue a 1099-B for the time it was held in their account.

### Example 2 – An option not subject to Section 1256.

On 05/14/2014, the investor buys a put option on 1000 shares of an option for \$600 in premium. The put is on 100 shares of XYZ at a strike of \$10 per share and expires on 10/16/2014. On August 12, 2014, the investor transfers the entire holding to another broker. The transfer statement might have the following information:

	Option
Statement Date	August 15, 2014
Applicable person effecting transfer	[The Broker's Name] [Address] [And Phone Number]
Broker receiving Custody	[New Broker's Name] [Address] [And Phone Number]
From Customer	[From-Customer Name] [And Account#]
To Customer	[To-Customer Name] [And Account#]
Security Identifier	1000 Put on XYZ [CUSIP or Another Identifier] Option
Option Description	put on 100 shares of XYZ at \$10 per share expires on 10/16/2014
Original Acquisition Date	May 14, 2014
Adjusted Acquisition Date	May 14, 2014
Transfer Date	August 12, 2014
Transfer Settle Date	August 15, 2014
Total Adjusted Basis	\$600
Premium Paid	\$600

Note the two new pieces of information, which are shown in blue, that are needed for options that are covered. In the absence of a wash sale adjustment, the total adjusted basis and the premium paid or received should be identical.

## DEBT INSTRUMENTS

Brokers must report more information for bonds than for stocks, securities futures contracts, or options. Data on premium, acquisition premium, and market discount have to be individually listed if they are reported. Notably, accrued Original Issue Discount (OID) does not need to be separately reported, although adjusted issue price does have to be reported. We interpret adjusted issue price to be the issue price including any accrued OID. Thus, the adjusted issue price is unaffected by how many times an OID bond has exchanged hands and at what prices.

### Example 3 – The same bond portfolio reported under different elections

We have three customers with the exact same trades on the following four bonds.

Customer 1 does not notify the broker of any election. This might be the most common case.

Customer 2 elects to amortize premium and to include market discount, using constant yield.

Customer 3 elects not to amortize premium and not to include market discount.

AAA - non-OID bond issued on 01/01/2014 and maturing on 12/31/2019 at 100, paying 5% semiannual  
 BBB - non-OID bond issued on 07/01/2009 and maturing on 06/30/2019 at 100, paying 5% semiannual  
 SSS - OID bond issued on 08/01/2012 at 90 and maturing on 07/31/2021 at 100, paying 1% semiannual  
 TTT - zero-coupon bond issued on 07/01/2010 at 80 and maturing on 06/30/2020 at 100

On 01/01/2014, purchase 100 AAA at \$105 a bond

On 03/01/2014, purchase 100 BBB at \$99 a bond

On 05/01/2014, purchase 100 SSS at \$90 a bond

On 07/01/2014, purchase 100 TTT at \$89 a bond

These prices are net of accrued interest (clean price). The customers transfer out all these positions on 12/31/2014.

Customer 1 did not notify the broker of any election. The default then is to include premium amortization but to not include market discount. This generally minimizes tax liability.

The transfer statement might look like the following:

	AAA	BBB	SSS	TTT
<b>Statement Date</b>	January 5, 2015	[same]	[same]	[same]
<b>Applicable person effecting transfer</b>	[The Broker's Name] [Address] [And Phone Number]	[same]	[same]	[same]
<b>Broker receiving Custody</b>	[New Broker's Name] [Address] [And Phone Number]	[same]	[same]	[same]
<b>From Customer</b>	From-Customer Name] [And Account#]	[same]	[same]	[same]
<b>To Customer</b>	[To-Customer Name] [And Account#]	[same]	[same]	[same]
<b>Security Identifier</b>	100 AAA [CUSIP or Identifier] Debt Instrument	100 BBB [same]	100 SSS [same]	100 TTT [same]
<b>Payment Terms</b>	5% semiannual mature at 100 on December 31, 2019	5% semiannual mature at 100 on June 30, 2019	1% semiannual mature at 100 on July 31, 2021	Zero-coupon mature at 100 on June 30, 2020
<b>Issue Date</b>	January 1, 2014	July 1, 2009	August 1, 2012	July 1, 2010
<b>Original Acquisition Date</b>	January 1, 2014	March 1, 2014	May 1, 2014	July 1, 2014
<b>Adjusted Acquisition Date</b>	January 1, 2014	March 1, 2014	May 1, 2014	July 1, 2014
<b>Transfer Date</b>	December 31, 2014	[same]	[same]	[same]
<b>Transfer Settle Date</b>	January 5, 2015			
<b>Issue Price</b>	100.00000	100.00000	90.00000	80.00000
<b>Adjusted Issue Price</b>	100.00000	100.00000	92.05283	88.45034
<b>Initial Basis</b>	105,000.00	99,000.00	90,000.00	89,000.00
<b>Market Discount</b>	0.00	156.65	189.16	0.00
<b>Bond Premium</b>	752.03	0.00	0.00	0.00
<b>Acquisition Premium</b>	0.000	0.00	0.00	119.90
<b>Total Adjusted Basis</b>	104,247.97	99,000.00	90,703.93	89,861.47
<b>Election</b>	No Election. So assume Amortize premium, Do not include Market Discount, Calculate market discount using ratable accrual	[Same]	[Same]	[Same]

Note the numerous new fields that are required for reporting on bonds. For a discussion on how the numbers are computed, we plan on publishing a Basic Bond Math whitepaper. Market discount has been excluded from the total adjusted basis. However, since the regulation still requires market discount reporting, we include the market discount that would have accrued using ratable accrual -- the default method in the absence of an election by the taxpayer. Note also that OID is not separately reported.

Customer 2 elects to include premium amortization, include market discount, and use constant yield to account for market discount.

	AAA	BBB	SSS	TTT
Statement Date	January 5, 2015	[same]	[same]	[same]
Applicable person effecting transfer	[The Broker's Name] [Address] [And Phone Number]	[same]	[same]	[same]
Broker receiving Custody	[New Broker's Name] [Address] [And Phone Number]	[same]	[same]	[same]
From Customer	From-Customer Name] [And Account#]	[same]	[same]	[same]
To Customer	[To-Customer Name] [And Account#]	[same]	[same]	[same]
Security Identifier	100 AAA [CUSIP or Identifier] Debt Instrument	100 BBB [same]	100 SSS [same]	100 TTT [same]
Payment Terms	5% semiannual mature at 100 on December 31, 2019	5% semiannual mature at 100 on June 30, 2019	1% semiannual mature at 100 on July 31, 2021	Zero-coupon mature at 100 on June 30, 2020
Issue Date	January 1, 2014	July 1, 2009	August 1, 2012	July 1, 2010
Original Acquisition Date	January 1, 2014	March 1, 2014	May 1, 2014	July 1, 2014
Adjusted Acquisition Date	January 1, 2014	March 1, 2014	May 1, 2014	July 1, 2014
Transfer Date	December 31, 2014	[same]	[same]	[same]
Transfer Settle Date	January 5, 2015			
Issue Price	100.00000	100.00000	90.00000	80.00000
Adjusted Issue Price	100.00000	100.00000	92.05283	88.45034
Initial Basis	105,000.00	99,000.00	90,000.00	89,000.00
Market Discount	0.00	0.00	0.00	0.00
Bond Premium	752.03	0.00	0.00	0.00
Acquisition Premium	0.000	0.00	0.00	119.90
Total Adjusted Basis	104,247.97	99,139.95	90,851.53	89,861.47
Election	Amortize Premium Include Market Discount Calculate market discount using Constant Yield	[Same]	[Same]	[Same]

Fields that changed from Customer 1 are highlighted in yellow. Acquisition Premium and OID are unaffected. The two bonds bought with market discount now have the accrued market discount included in the Total Adjusted Basis, rather than reported separately.

Customer 3 elects to not include premium and not include market discount.

The transfer statement might look like the following:

	AAA	BBB	SSS	TTT
<b>Statement Date</b>	January 5, 2015	[same]	[same]	[same]
<b>Applicable person effecting transfer</b>	[The Broker's Name] [Address] [And Phone Number]	[same]	[same]	[same]
<b>Broker receiving Custody</b>	[New Broker's Name] [Address] [And Phone Number]	[same]	[same]	[same]
<b>From Customer</b>	From-Customer Name] [And Account#]	[same]	[same]	[same]
<b>To Customer</b>	[To-Customer Name] [And Account#]	[same]	[same]	[same]
<b>Security Identifier</b>	100 AAA [CUSIP or Identifier] Debt Instrument	100 BBB [same]	100 SSS [same]	100 TTT [same]
<b>Payment Terms</b>	5% semiannual mature at 100 on December 31, 2019	5% semiannual mature at 100 on June 30, 2019	1% semiannual mature at 100 on July 31, 2021	Zero-coupon mature at 100 on June 30, 2020
<b>Issue Date</b>	January 1, 2014	July 1, 2009	August 1, 2012	July 1, 2010
<b>Original Acquisition Date</b>	January 1, 2014	March 1, 2014	May 1, 2014	July 1, 2014
<b>Adjusted Acquisition Date</b>	January 1, 2014	March 1, 2014	May 1, 2014	July 1, 2014
<b>Transfer Date</b>	December 31, 2014	[same]	[same]	[same]
<b>Transfer Settle Date</b>	January 5, 2015			
<b>Issue Price</b>	100.00000	100.00000	90.00000	80.00000
<b>Adjusted Issue Price</b>	100.00000	100.00000	92.05283	88.45034
<b>Initial Basis</b>	105,000.00	99,000.00	90,000.00	89,000.00
<b>Market Discount</b>	0.00	156.65	189.16	0.00
<b>Bond Premium</b>	752.03	0.00	0.00	0.00
<b>Acquisition Premium</b>	0.000	0.00	0.00	119.90
<b>Total Adjusted Basis</b>	105,000.00	99,000.00	90,703.93	89,861.47
<b>Election</b>	Do not Amortize Premium amortization, Do not include Market Discount, Calculate market discount using ratable accrual	[Same]	[Same]	[Same]

Note that premium is still separately reported, but has been excluded from Total Adjusted Basis. Fields that changed from Customer 2 are highlighted in yellow. Acquisition Premium and OID are unaffected.

**WASH SALE**

A broker must now apply a simplified [wash sale rule](#) to produce a form 1099-B and for transfer reporting purposes. The broker only has to apply wash sale analysis on a single-CUSIP and single-account basis, calculating the disallowed loss and adjusting the holding period.

**Example 4 – Bonds with Wash Sale**

Let us reuse Example 3. Instead of transferring, the customers sell and buy back on 01/01/2015.

On 01/01/2014, purchase 100 shares of bond AAA at \$105 a share  
 On 03/01/2014, purchase 100 shares of bond BBB at \$99 a share  
 On 05/01/2014, purchase 100 shares of OID bond SSS at \$90 a share  
 On 07/01/2014, purchase 100 shares of OID bond TTT at \$89 a share

On 01/01/2015, sell AAA at \$104.50 and buy back at \$104.00  
 On 01/01/2015, sell BBB at \$99.05 and buy back at \$99  
 On 01/01/2015, sell SSS at \$90 and on buy back at \$90.50  
 On 01/01/2015, sell TTT at \$89 and on buy back at \$88.90

These prices are net of accrued interest (clean price). On 11/30/2015, the customers transfer out of the bonds. What do the transfer statements look like? Here is a recap of each customer's basis at the time of sale on 12/31/2014.

	AAA	BBB	SSS	TTT
<b>Customer 1</b>	104,247.97	99,000.00	90,703.93	89,861.47
<b>Customer 2</b>	104,247.97	99,139.95	90,851.53	89,861.47
<b>Customer 3</b>	105,000.00	99,000.00	90,703.93	89,861.47

For background information on why we use the unadjusted price for amortization, we plan on publishing a Basic CBR Phase III white paper.



**Customer 1**

Only the SSS and TTT sales generate disallowed losses. Below is what the transfer statement might look like. Following the table is an explanation of the Total Adjusted Basis computation.

	AAA	BBB	SSS	TTT
Statement Date	December 4, 2015	[same]	[same]	[same]
Issue Date	January 1, 2014	July 1, 2009	August 1, 2012	July 1, 2010
Original Acquisition Date	January 1, 2015	January 1, 2015	January 1, 2015	January 1, 2015
Adjusted Acquisition Date	January 1, 2015	January 1, 2015	May 1, 2014	July 1, 2014
Transfer Date Transfer Settle Date	November 30, 2015 December 4, 2015	[same]	[same]	[same]
Issue Price	100.00000	100.00000	90.00000	80.00000
Adjusted Issue Price	100.00000	100.00000	94,011.07	90,277.17
Initial Basis	104,000.00	99,000.00	90,500.00	88,900.00
Market Discount	0.00	222.29	266.62	0.00
Bond Premium	613.66	0.00	0.00	0.00
Acquisition Premium	0.000	0.00	0.00	71.12
Total Adjusted Basis	103,326.34	99,000.00	92,184.00	91,517.18
Election	No Election. So assume Amortize premium, Do not include Market Discount, Calculate market discount using ratable accrual	[Same]	[Same]	[Same]

For AAA, no wash sale is generated. Total Adjusted Basis is Initial Basis of 104,000 - Premium of 613.66 resulting in 103,326.34.

For BBB, no wash sale is generated. Total Adjusted Basis is the Initial Basis.

For SSS, the sale generates a loss of 703.93. Total Adjusted Basis is Initial Basis of 90,500 + OID of 980.07 + Disallowed loss 703.93 resulting in 92,184. Note that the disallowed loss and the OID could not be deducted from the transfer statement through simple arithmetic.

For TTT, the sale generates a loss of 861.47. Total Adjusted Basis is Initial Basis of 88,900 + OID of 1,826.83 - Acquisition Premium of 71.12 + Disallowed loss 861.47 resulting in 91,517.18. Note that the disallowed loss and the OID could not be deducted from the transfer statement through simple arithmetic.

**Customer 2**

AAA does not generate a wash sale, but the other three sales generate disallowed losses. Below is what the transfer statement might look like. Following the table is an explanation of the Total Adjusted Basis computation. We focus only on the fields most relevant for bonds. For emphasis, the two fields affected by wash sale are in blue text.

	AAA	BBB	SSS	TTT
Statement Date	December 4, 2015	[same]	[same]	[same]
Issue Date	January 1, 2014	July 1, 2009	August 1, 2012	July 1, 2010
Original Acquisition Date	January 1, 2015	January 1, 2015	January 1, 2015	January 1, 2015
Adjusted Acquisition Date	January 1, 2015	March 1, 2014	May 1, 2014	July 1, 2014
Transfer Date	November 30, 2015	[same]	[same]	[same]
Transfer Settle Date	December 4, 2015			
Issue Price	100.00000	100.00000	90.00000	80.00000
Adjusted Issue Price	100.00000	100.00000	94,011.07	90,277.17
Initial Basis	104,000.00	99,000.00	90,500.00	88,900.00
Market Discount	0.00	0.00	0.00	0.00
Bond Premium	613.66	0.00	0.00	0.00
Acquisition Premium	0.000	0.00	0.00	71.12
Total Adjusted Basis	103,326.34	99,275.18	92,580.60	91,517.18
Election	Amortize Premium Include Market Discount Calculate market discount using Constant Yield	[Same]	[Same]	[Same]

Differences from the results for Customer 1 are highlighted in yellow.

For AAA and TTT, the numbers are the same as for Customer 1.

For BBB, the sale generates a loss of 89.95. Total Adjusted Basis is Initial Basis of 99,000 + Discount of 185.23 + Disallowed loss 89.95 resulting in 99,275.18. Note that the disallowed loss does not itself appear on the transfer statement. It could be deducted from the difference between Total Adjusted Basis and the sum of initial Basis and Premium. The Market Discount is included, so it is no longer separately reported.

For SSS, the sale generates a loss of 851.53. Total Adjusted Basis is Initial Basis of 90,500 + OID of 980.07 + Discount of 249.00 + Disallowed loss 851.53 resulting in 92,580.60. Note that the disallowed loss and the OID could not be deducted from the transfer statement through simple arithmetic. The Market Discount is included, so it is no longer separately reported.

### Customer 3

The AAA, SSS, and TTT sales generate disallowed losses. Below is what the transfer statement might look like. Following the table is an explanation of the Total Adjusted Basis computation.

	AAA	BBB	SSS	TTT
Statement Date	December 4, 2015	[same]	[same]	[same]
Issue Date	January 1, 2014	July 1, 2009	August 1, 2012	July 1, 2010
Original Acquisition Date	January 1, 2015	January 1, 2015	January 1, 2015	January 1, 2015
Adjusted Acquisition Date	January 1, 2014	January 1, 2015	May 1, 2014	July 1, 2014
Transfer Date	November 30, 2015	[same]	[same]	[same]
Transfer Settle Date	December 4, 2015			
Issue Price	100.00000	100.00000	90.00000	80.00000
Adjusted Issue Price	100.00000	100.00000	94,011.07	90,277.17
Initial Basis	104,000.00	99,000.00	90,500.00	88,900.00
Market Discount	0.00	222.29	266.62	0.00
Bond Premium	0.00	0.00	0.00	0.00
Acquisition Premium	0.000	0.00	0.00	71.12
Total Adjusted Basis	104,500.00	99,000.00	92,384.00	91,517.18
Election	Do not Amortize Premium amortization, Do not include Market Discount, Calculate market discount using ratable accrual	[Same]	[Same]	[Same]

Differences from the results for Customer 2 are highlighted in yellow.

For AAA, the sale generates a loss of 500. Total Adjusted Basis is Initial Basis of 104,000 + Disallowed loss of 500 resulting in 104,500. Note that the disallowed loss does not itself appear on the transfer statement. It could be deducted from the difference between Total Adjusted Basis and Initial Basis.

For BBB, SSS, and TTT, the numbers are the same as for Customer 1.

### RECEIVING BROKER

The receiving broker may rely on the transfer statement, unless the broker has actual knowledge that it is incorrect. The receiving broker is not liable for any penalties due to incorrect filing based on this reliance.

### CONCLUSION

Under Phase III, brokers do incur more reporting responsibility for a transfer of these securities. However, the information that is now required is essentially information that a broker had to track in order to produce a form 1099-B at the time of a sale or other termination event. Thus for an accounting system that already must track such information, the incremental work for transfers is only data extraction, rather than new data capture or manipulation.

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This white paper is part of G2's Tax Analysis for Securities Transactions (TAST) Resource Page (<http://g2ft.com/resources/>), which provides best practice guidelines on IRC compliance. G2 also hosts a Taxable Events Webinar Series. For more information, visit <http://www.g2ft.com/webinars/>.

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