

# Why C-Level Executives Should Be Concerned About the New Cost Basis Reporting Rules

## Report Published by Celent

**Most financial firms are still not prepared for the new cost basis reporting law. Only 12% of firms have a solution in place.**

A new survey, **Why C-Level Executives Should be Concerned About the New Cost Basis Reporting Law**, conducted by [Celent](#) in conjunction with [Wolters Kluwer Financial Services](#), shows that while financial firms have done a lot of research around the Cost Basis Reporting Law, the industry is lagging in implementing solutions to comply with it.

The Cost Basis Reporting Law requires the reporting of adjusted cost basis information for covered securities to the Internal Revenue Service (IRS) and to taxpayers. With an initial effective date of January 1, 2011, there is an urgent need for firms to prepare, considering the technology, operational, tax, legal and other business requirements that will need to be in place in order to comply with the law.

However, the summer 2009 survey of 175 financial professionals ranging from broker-dealers, investment advisors, mutual funds, banks, asset management firms, hedge funds and custodians showed that 52% of the survey respondents who will ultimately need to implement a solution or else rely on a partner are unaware whether time has actually been allocated for this process. In addition, only 16% of applicable firms have allocated any budget at all to building or purchasing a solution.

“These statistics are troubling when you also consider that 75 percent of the survey respondents who have allocated time for implementing a compliance solution estimate that it will take at least 13 months in total elapsed time to complete the process,” says David Easthope, senior analyst with Celent’s Securities & Investments Group and author of the report. “With the law’s first effective date only 15 months away, firms must move beyond the research phase and aggressively pursue planning and development.”

And with the clock ticking, many firms are starting to show concern of their own. The survey shows that concern over compliance is centered on having proper systems in place and meeting regulatory timeframes. Broker-dealers and mutual fund companies show high concern levels over nearly every component of the new law, including basis method elections, special rules/mechanical issues, and transfer reporting.

Although many firms are still unsure of plans, some themes are starting to emerge. About 25 percent of asset manager/hedge funds surveyed plan to build their own system, while nearly a quarter of broker

dealers and banks will combine one of their own systems with capabilities of a third-party vendor.

“While there is progress being made, industry preparedness at this point is still rather weak,” says Chuck Ross, general manager for GainsKeeper, part of Wolters Kluwer Financial Services. “This research should help C-level executives communicate the urgency of the law and increase the amount of attention and resources it receives within their organizations.”

“There are two reasons firms need to focus now,” says Stevie Conlon, tax director for GainsKeeper. “First they need to think about the level of detail and accuracy of the information they need, and then they need to assess what their system can and should handle. These steps of the planning process require much thought and consideration to make sure a firm is handling cost basis issues accurately.”

### **About Celent**

Celent is a research and advisory firm dedicated to helping financial institutions formulate comprehensive business and technology strategies. Celent publishes reports identifying trends and best practices in financial services technology and conducts consulting engagements for financial institutions looking to use technology to enhance existing business processes or launch new business strategies. With a team of internationally experienced analysts, Celent is uniquely positioned to offer strategic advice and market insights on a global basis. Celent is a member of the Oliver Wyman Group, which is part of Marsh & McLennan Companies [NYSE: MMC].

### **Celent Media Contacts**

New York - Dana Lautin  
[dlautin@celent.com](mailto:dlautin@celent.com)  
Tel.: +1 646 364 8254

Paris -Alexandra Vouge  
[avouge@celent.com](mailto:avouge@celent.com)  
Tel.: +33.1.73.04.46.26

Tokyo - Yumi Nagaoka  
[ynagaoka@celent.com](mailto:ynagaoka@celent.com)  
Tel.: +81.3.3596.0020

### **About Wolters Kluwer Financial Services**

[Wolters Kluwer Financial Services](#) provides best-in-class compliance, content, and technology solutions and services that help financial organizations manage risk and improve efficiency and effectiveness across their enterprise. The organization’s prominent brands include Bankers Systems, VMP® Mortgage Solutions, PCi, AppOne®, GainsKeeper®, Capital Changes, NILS, AuthenticWeb™ and Uniform Forms™. Wolters Kluwer Financial Services is part of [Wolters Kluwer](#), a leading global information services and

publishing company with annual revenues of (2008) €3.4 billion (\$4.9 billion) and approximately 20,000 employees worldwide. Please visit our [Web site](#) for more information.

#### **Wolters Kluwer Media Contacts**

Jennifer Marso

[jennifer.marso@wolterskluwer.com](mailto:jennifer.marso@wolterskluwer.com)

Tel.: +1 612 852 7912

Angela Peterson

[angela.peterson@wolterskluwer.com](mailto:angela.peterson@wolterskluwer.com)

Tel.: +1 612 656 7745