

## Requirement for Broker Basis Reporting

### Commentary

Is there a cost efficient way to retrieve cost basis information?

Please allow us to introduce ourselves:

Networth Services Inc, (NWS) is a financial information services and software company which was created in 1997 in order to provide it's customers with a standard resource for historical cost basis information as well as corporate action information, portfolio tracking, shareholders services and other related products and services. The company's vision was to create products and services that would provide easy answers to the most vexing investment services challenges experienced by professionals in the financial services industry; converting time-intensive research tasks into virtually instantaneous calculations.

Used by governmental agencies, corporations, and investment brokerage firms alike, our flagship product—NetBasis and its sister product AccuBasis—is revolutionizing how financial professionals determine the cost basis of securities. Both NetBasis and AccuBasis enable individuals, institutions, and financial service professionals to accurately determine the value of an investment regardless of the date of purchase and history of capital changes, by streamlining what was once an intensive manual process.

With a relationship with the Internal Revenue Service that began in 2000, NetBasis was used to verify reported cost basis information on the Schedule D for the 2001 NRP Random Study, where 46,000 random taxpayers were audited. Hundreds of thousands of investment transactions were processed through the NetBasis system. NetBasis not only identified a significant number of Schedule D's that yielded improper reporting, but it also identified \$11 billion dollars in underreported capital gains taxes, which was then reported in the 2006 Tax Gap Report.

After successful testing with the IRS, NetWorth Services extended the software to the private sector in 2002, to provide the financial services industry with the same advantages and benefits of an automated cost basis system. Through the close relationships with our customers and partners, NetWorth Services has been positioned on the front line of what is happening in the market, and with that valuable information, we continue to expand our products and services to directly meet the needs and challenges within the financial services industry. Cost Basis information can be successfully retrieved and determined using available technology, such as NetBasis.

#### NetBasis

NetBasis, a web application developed by NetWorth Services, Inc., successfully retrieves an accurate adjusted cost basis of any investment regardless of its history of capital changes or corporate actions. Some of the various capital changes that can alter an investment's original purchase price include stock splits, spin-offs, mergers, special dividends, dividend reinvestment programs, and return of capital. One of the most impressive features of NetBasis is that it can retrieve mandatory or elective corporate action events and chronologically display those corporate action events and/or pricing of a given security going as far back as 1925. Furthermore, NetBasis is resilient enough to be easily customized to the specific needs of its customers and implemented through an Internet, Intranet or proprietary software platform.

Within seconds, NetBasis filters through a comprehensive database of over 200 gigabytes of financial information, recreating the complete history of an investment and delivering the accurate adjusted cost basis. The results are significant savings in time, more accurate reporting for capital gains and losses, and better insights into portfolio positions for advisors and clients. The software is delivered through an intuitive graphical user interface via the Internet, intranet or proprietary platform.

NetWorth Services has successfully provided cost basis solutions to six distinct financial markets:

- Government - NetBasis was an important part of NRP Study in which cost basis reporting deficiencies were exposed.
- State Government - NetBasis is an effective tool for verifying and determining the cost basis of securities in abandon property cases.
- Broker-dealers (large and small brokerage firms) - NetBasis has efficiently and effectively resolved time-consuming cost basis issues for various departments within brokerage firms such branch administration (the broker dealing directly with the client), back office operations, as well as retrieving missing and incomplete cost basis information for databases with millions of transactions.
- Tax/Accounting Professionals - NetWorth also has clients in the area of Tax and Accounting such as CPAs, tax attorneys.
- Portfolio Management professionals are also users of the NetBasis system such as money managers and trust services.

The current software market is one where professional-oriented products can cost thousands of dollars, making it a financial burden for a small firm or office. When NetWorth Services designed the NetBasis system, it was important that all firms regardless of their size were able to afford the product. Although NetBasis is complex in its information and calculations, the cost of having access to such a product is very reasonably priced and well below the average for comparable types of professional software. In order to service different size firms, NetWorth has several pricing models that are designed to specifically meet the client's needs and budget. The maximum cost per seat for the smallest brokerage or professional firm would be less than \$84.00 per month per individual "authorized user" for unlimited use license for the NetBasis system.

Is 18 months long enough in the proposed bill?

The real crux of the cost basis misreporting issue stems from when the security is  
Page 3

NWS Commentary on the Basis Reporting Requirement Proposal.txt

held for  
any length of time. When this occurs, the historical information becomes convoluted  
and  
time consuming with questionable accuracy. A security that was purchased no later  
than  
18 months ago has fewer, if any corporate action events that need to be factored  
into the  
adjusted cost basis, making it a much simpler and accurate calculation. Our  
experience  
tells us that the misreporting issues on the Schedule D are largely derived from  
historically inaccurate cost basis information.

Thank you.

Nico R. Willis

CEO