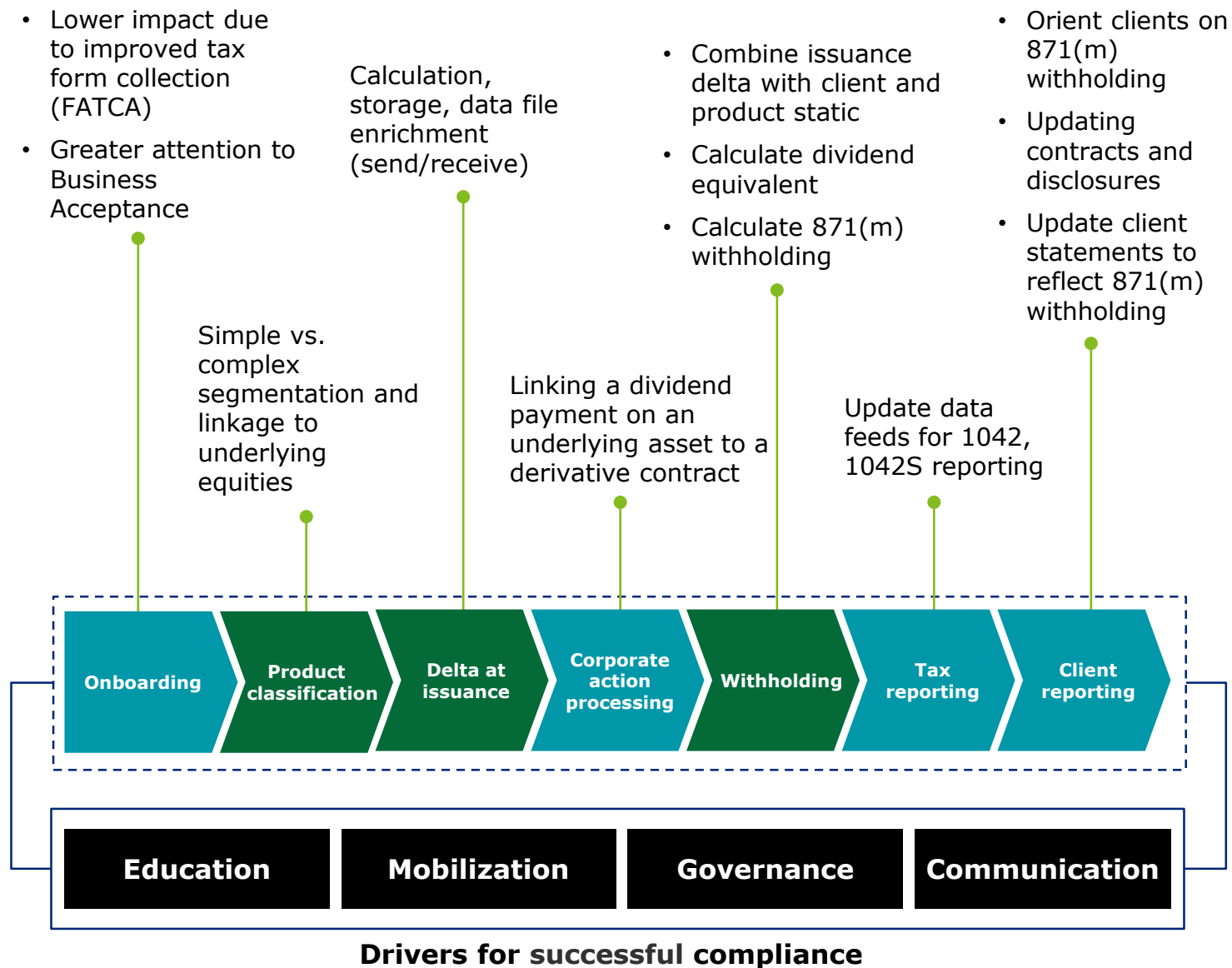


## Section 871(m)

### 871(m) impacts the tax operations lifecycle



**Operations impact:** Moderate Significant

### The impact is defined by the role played by the parties in a transaction

Exe.	Equities and fixed income
	Prime brokerage
	Custody
Services	Fund services (Actg. & Admin.)
	Collateral management
	Investment management
Asset mgmt.	Wealth management

- Desks offering equity linked instruments will need to formalize issuance delta calculation and ingestion given its primacy in the determination of trade eligibility
- Delta information will need to be ingested, stored, and communicated to determine 871(m) withholding and information reporting
- Dividend equivalent information will need to be calculated using issuance delta
- Additional information flows will need to be incorporated for Chapter 3 reporting
- 871(m) withholding information will be required by fund accounting to ensure accuracy of NAV and performance reporting
- In addition to recording 871(m) withholding on client records, delta and 871(m) withholding amounts may need to be stored, in anticipation of client and/or regulatory requests
- Although rare, holding convertible debt as collateral may trigger 871(m) withholding, requiring a review of the collateral currently held, and a policy review acceptable forms of collateral
- Investment strategies that include derivatives will require review to account for the 871(m) impact
- A lack of clarity in the rules on processing responsibilities makes contract negotiations challenging
- While generally considered a fixed income product, structured notes linked to US equities will be subject to 871(m) withholding

# Section 871(m)

## Some aspects of the requirement are operationally complex



### Products

- Classifying for simple and complex contracts will require security master analysis and updates
- Linking ELIs to underlying reference asset is not a consistent practice and will require standardization



### Delta

- Issuance delta will require counterparties to create new feeds to send/receive and store this information, and pass it downstream for dividend equivalent and withholding determination
- Transaction details will need to be enriched with issuance delta information and reproduced for combined trades testing



### Withholding

- New capability will have to be built to calculate dividend equivalent amounts prior to withholding
- Multiple withholding applications may need to be modified for 871(m) withholding, impacting the IT organization that is already stretched for resources and constrained for time



### Effective date

- The regulations are fully effective for contracts entered into on or after January 1, 2017; the statutory rules continue to apply to contracts entered into prior to 2017.
- Identified transactions will need to be enriched with issuance delta information

## Organizations are actively planning for the transformation



### Mobilization and governance

- Inventory impacted businesses and articulate their role in the 871(m) lifecycle
- Establish governance structure for senior management to steer 871(m) program, and, manage the program, and mitigate risks
- Mobilize cross-functional teams consisting of tax technical, tax operations, and technology resources



### Communication and education

- Provide targeted messaging to key stakeholders on 871(m) requirements, including an executive understanding on effort level
- Identify front office groups responsible for client outreach to educate them on 871(m) and leverage them to devise broader client outreach strategy



### Tech and ops transformation

- Scope homegrown and vendor systems and their roles in the 871(m) lifecycle
- Connect with system owners (including vendors) to orient them on 871(m) and develop consensus on prioritization of build for 2016
- Document system and data flows to determine new data and technology capabilities that need to be built
- Accelerate the development cycle, beginning with requirements, due to the shortened compliance horizon



### Contract amendments

- Inventory all client and vendors to determine size and scope of contracts to be amended
- Engage legal to outline changes required, depending on nature of contracting relationship
- Begin identifying relationship owners to serve as a single source of contact with key providers

# Tax withholding and reporting engine

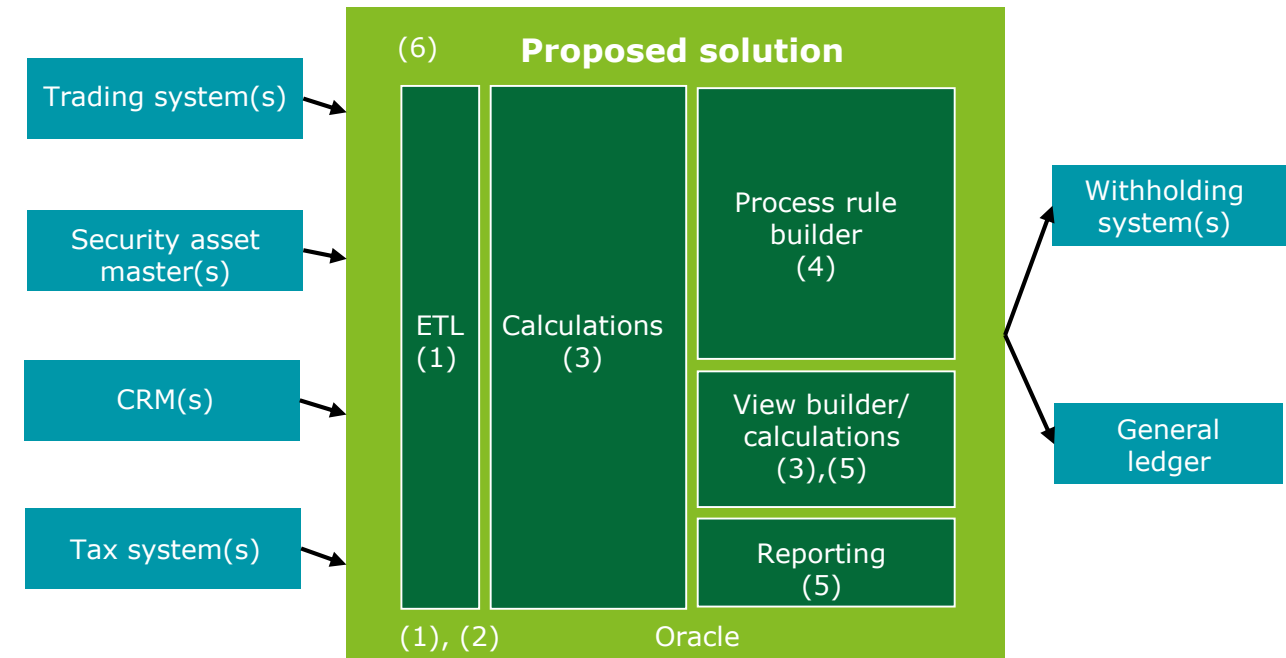
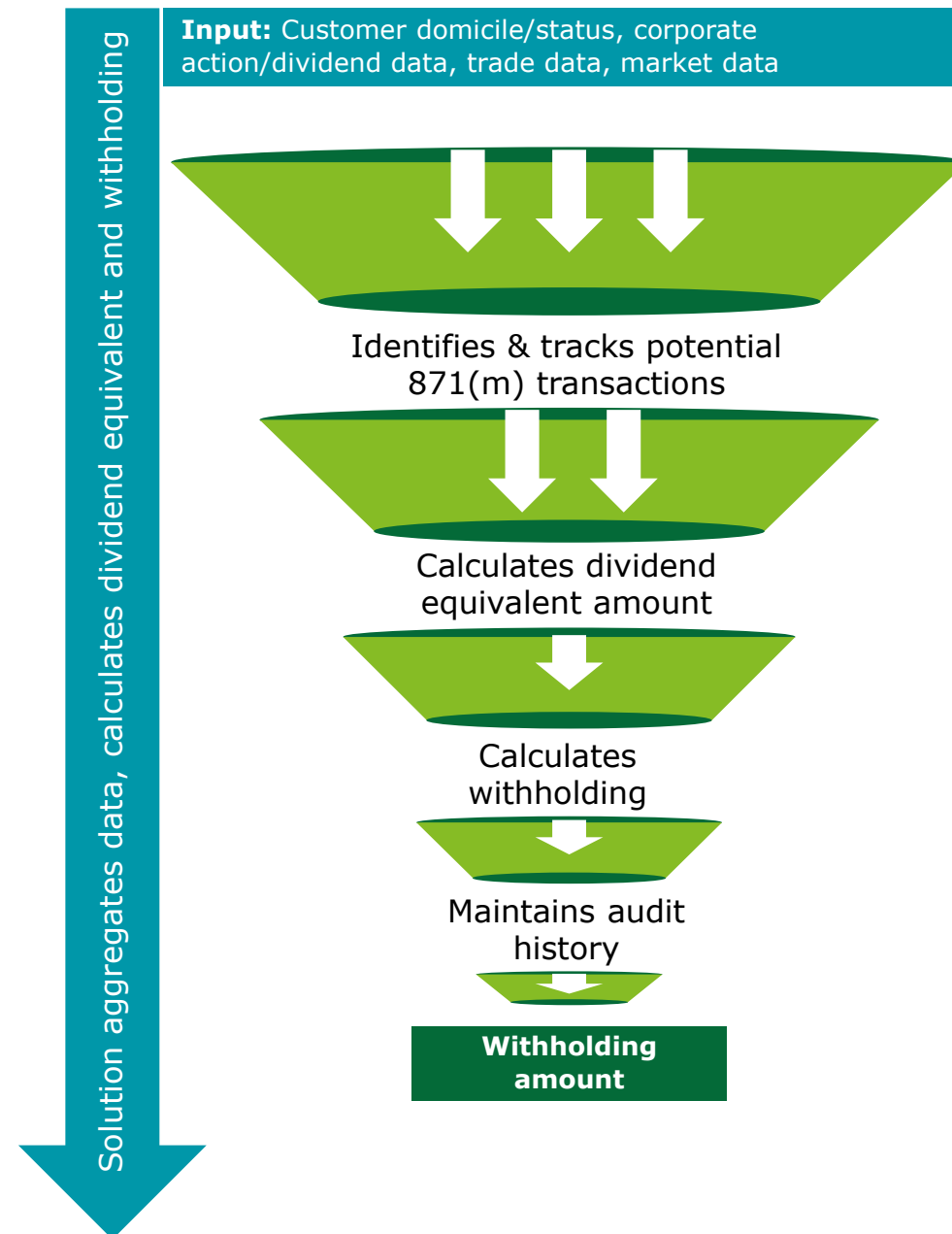
## 871(m) Solution

**The complexity of IRC Section 871(m) and recently issued regulations thereunder creates a difficult business and technology challenge. However, Deloitte believes it is possible to customize and leverage an existing Deloitte Financial Technology Group platform that has long served financial institutions in configuring data-driven rules and performing waterfall calculations to address many of the calculations required under 871(m)**

Using determinations and data inputs provided by the Client, the solution can be designed to include the following capabilities:

Using determinations and data inputs provided by the Client, the solution can be designed to include the following capabilities:

- Ability to interface with multiple source systems such as data warehouse, trading platforms and remittance systems
- Extendable tables and import mapping allowing for future customization as data needs change
- Column and row transformation allowing for standardization and consolidation of large volumes of data into a central repository
- Highly auditable and customizable rule sets with ability to create logic and loop calculations based on user inputs:
  - Customer status and withholding rate determinations
  - Product tests under multiple exception scenarios
  - Tracking in-scope transactions and corporate action events
  - Dividend equivalent & withholding calculations
  - Combination trades

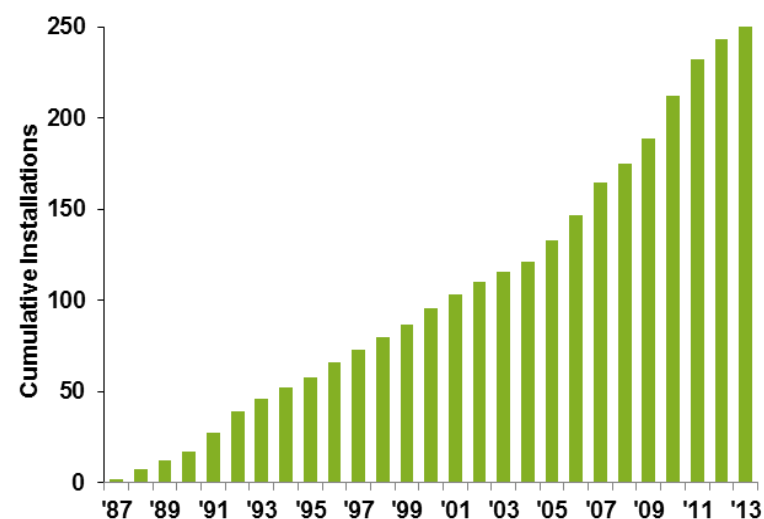


Capability	What does it mean?
(1) Configurable architecture	<ul style="list-style-type: none"> <li>• Conforms to your architecture to reduce development effort</li> <li>• Can be used for multiple purposes</li> </ul>
(2) Database application designed for high volumes	<ul style="list-style-type: none"> <li>• Retains data for support and reporting purposes</li> <li>• Provides data for reporting &amp; analytics</li> </ul>
(3) Configurable calculations	<ul style="list-style-type: none"> <li>• Conforms to your data to reduce development effort</li> <li>• Can be used for multiple purposes</li> <li>• Reduces maintenance and allows for regulatory changes</li> </ul>
(4) Configurable processes	<ul style="list-style-type: none"> <li>• Extends calculations and provides complex related and reusable processes</li> <li>• Provides auditable results</li> <li>• Reduces maintenance and allows for regulatory changes</li> <li>• Can be used for multiple purposes</li> </ul>
(5) Configurable views and reporting	<ul style="list-style-type: none"> <li>• Allows clients to extend the reporting without system modifications</li> </ul>
(6) Controls, audit trails, and promotion management	<ul style="list-style-type: none"> <li>• Disciplined process to appropriately manage flexibility</li> <li>• Controlled process to test and promote changes with version control</li> </ul>

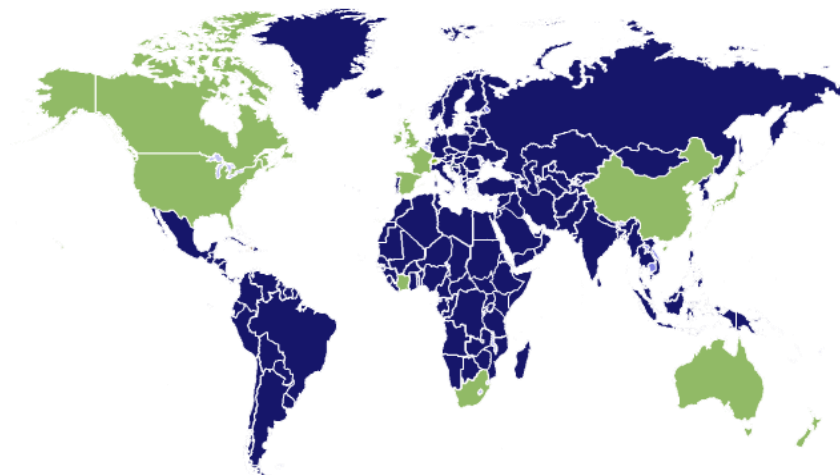
# Deloitte's Financial Technology Group qualifications

**The Financial Technology Group's suite of software products are utilized by many of the market's largest and most complex banks, asset managers, administrators, issuers, and trustees**

- Over 250 installations of Financial Technology applications on 5 different continents
- Extensive experience assisting with the integration of our private equity waterfall and securitization solutions into clients' infrastructure
- Integrated solutions that address current and future needs and circumstances.
- Knowledgeable industry-experienced professionals provide consulting, implementation assistance, and on-going advisory services.



Global Coverage with Clients Worldwide



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