

## ENTERING A MERGER-EXCHANGE CORPORATE ACTION

Corporate actions can pose accounting and reporting challenges, especially when they are complex. While custodians send transactions to appropriately account for positions, they often don't account for cost basis. Using the Merger/Exchange Wizard, located on the Transaction Writer tab, create transactions to account for cost basis and trade lot data when corporate activities occur. There are three recommended uses for the Merger/Exchange wizard:

- Cash/Share Exchange Transaction – In this scenario, two or more companies merge and the corporate action details call for an exchange of both shares and cash. Appropriate accounting for this transaction is important if you reconcile cost basis because the cash exchange is, in most cases, taxable, whereas the share exchange is not. For step-by-step instructions to enter these corporate actions, see the [Cash/Share Exchange Transaction](#) section starting [on page 3](#).
- Share Exchange Transaction – in this scenario, two or more companies merge and the corporate action involves only an exchange of shares among the companies. For step-by-step instructions to enter these corporate actions, see the [Share Exchange Transaction](#) section starting [on page 5](#).
- Symbol Change – in this scenario, one company changes its security ticker symbol. Although there is no change in the cost basis, it is a best practice to move the positions from one symbol to the other to account for the name change. Occasionally, security symbols are reused years later and can cause issues with mapping and prices if you only change the symbol. Use the Merger/Exchange wizard to create transactions accounting for a one-to-one share exchange, moving the positions from one symbol to the other. For step-by-step instructions to enter these transactions, see the [Symbol Change](#) section starting [on page 6](#).

This document shows you how to handle each of these scenarios using the Merger/Exchange Wizard.



### Note

Custodians may not update the cost basis data for corporate actions until several days after the action was posted. Cost basis for those clients may differ from the custodian and be unreconciled for a few days.

## BEST PRACTICES AND PREPARATION FOR USING THE MERGER/EXCHANGE WIZARD

Transaction wizards can create a significant change in the data and there are some things you can do to prepare for entering the data to ease the entry, such as:

- Review the transactions in the interface. If you find transactions from the custodian, block them. See the document [Identifying Corporate Action Transactions](#) in the Interface for help identifying those transactions.
- Research the information for the corporate activity:
  - If the corporate action involves a widely held security, look at the [Corporate Actions Center](#) of Schwabpt.com for a document detailing the data to enter.
  - If there is not a document on the corporate actions center, research the details required for the wizard. See [Tips for Researching Corporate Actions](#) for information.
- Decide how to handle cash in lieu for fractional shares. Since there are several ways to handle cash in lieu for fractional shares, see [Methods for Handling Cash in Lieu for Fractional Shares](#) for best practices and recommendations for this field.
- Always select All Portfolios at the end of the wizard. The wizard only creates transactions for accounts holding the original security.
- Create a backup of the database before starting. See [Backing Up Your PortfolioCenter Database](#) for instructions to create a single backup file.

## ACCESSING THE MERGER-EXCHANGE WIZARD

Regardless of how you need to use the Merger-Exchange wizard, you need to create a transaction list.

- 1 Once you have all the details required for the merger/exchange or name change, click the Transaction Writer tab.
- 2 If you already have a transaction list, open the list and skip to step 4.

If you need a transaction list, click the **New List** button to create a new list.

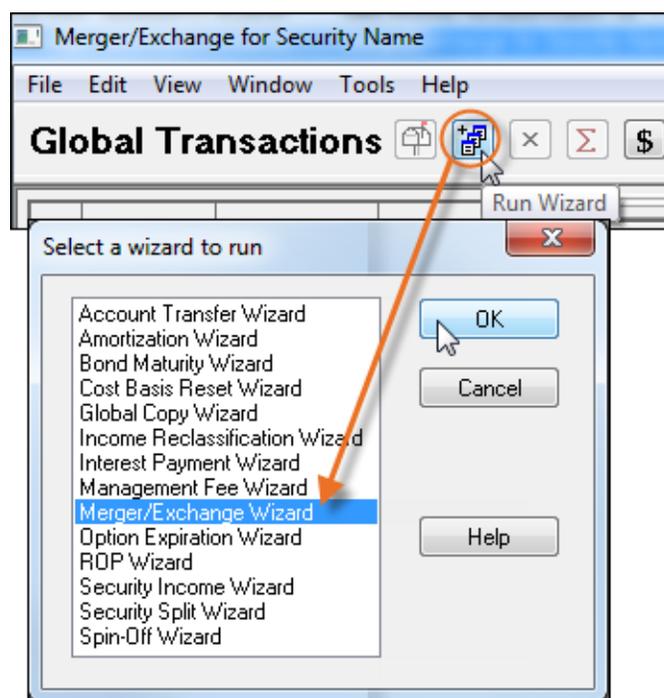
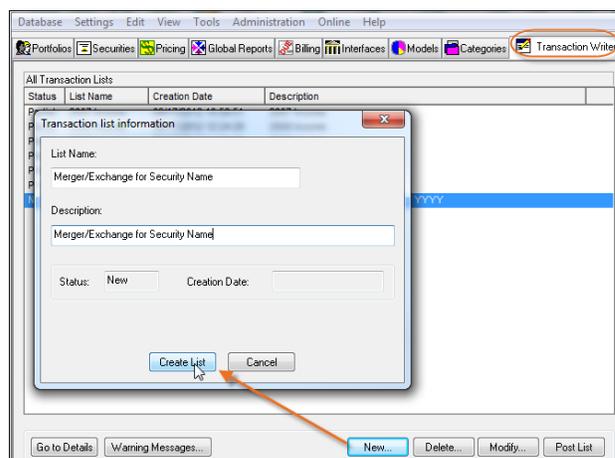
- 3 In the Transaction List Information window, enter a name and description for the transaction list. A best practice is to use the activity and securities names.

Click the **Create List** button.

- 4 Inside the list details, click the **Run Wizard** button on the menu bar to open the Select a Wizard to Run dialog.

- 5 In the Select a Wizard to Run dialog, select Merger/Exchange Wizard, and then click **OK**.

- 6 Follow the instructions for the appropriate scenario:
  - Cash/Share Exchange Transaction section starting on page 3.
  - Share Exchange Transaction section starting on page 5.
  - Symbol Change section starting on page 6



## CASH/SHARE EXCHANGE TRANSACTION

In this scenario, two or more companies merge and the corporate action details call for an exchange of both shares and cash. Appropriate accounting for this transaction is important if you reconcile cost basis because the cash exchange is, in most cases, taxable, whereas the share exchange is not. In some cases, the investor has several options.

### WIZARD SETTINGS

Enter the information for the original security or the security that no longer exists after the merger:

- Merger/Exchange date
- Security type (usually equities)
- Original symbol
- Original security's price per share on the day before the exchange
- Any notes (usually a description of the merger/exchange)

Click **Next**.

Merger/Exchange Wizard - Original security

Enter the information for the original security

Merger/Exchange Date: 12/30/2014

Security Type: Equities

Symbol: ORIGINAL SECURITY SYMBOL

Price per share: 50.00

Notes: Enter a description of the corporate action

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Enter the information for the new security:

- Security type (usually equities)
- Symbol for resulting company
- Share exchange ratio, entered as decimal.
- Cash Proceeds – check this box if the transaction includes both cash and an exchange of shares.
- Fair Market Value – usually published by the companies involved in the merger/exchange, this number determines the gain and Return of Capital amounts.
- Cash Distribution Ratio - the amount of cash the investor receives for each share.
- Conversion price for cash in lieu for fractional shares. Since there are several ways to handle cash in lieu for fractional shares, you should decide the method you want to use prior to starting this transaction. See [Methods for Handling Cash in Lieu for Fractional Shares](#) for best practices and recommendations for this field.

Merger/Exchange Wizard - Merger Proceeds

Enter the information for the proceeds of the merger

Security Type: Equities

Symbol: NEW SECURITY SYMBOL

Share Exchange Ratio: 0.25

Cash Proceeds:

Fair Market Value: 60.00

Cash Distribution Ratio: 10.00

Conversion price for cash in lieu of fractional shares: 0.00

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## EXPECTED TRANSACTIONS

Merger/Exchange for Security Name							
File Edit View Window Tools Help							
Global Transactions							
	Status	Account Number	Portfolio	Security Type	Activity	Trade Date	Symbol
5	 Pending	999-2012	Bishop, Steven	Equities	ROP	01/15/2013	RESULTING
6	 Pending	999-2012	Bishop, Steven	Equities	Debit Secur	01/15/2013	ORIGINAL
7	 Pending	999-3003	Alexander, Jen	Equities	Credit Secu	01/15/2013	RESULTING
8	 Pending	999-3003	Alexander, Jen	Equities	ROP	01/15/2013	RESULTING
9	 Pending	999-3003	Alexander, Jen	Equities	Debit Secur	01/15/2013	ORIGINAL
10	 Pending	999-5030	Abbot, Joel	Equities	Credit Secu	01/15/2013	RESULTING
11	 Pending	999-5030	Abbot, Joel	Equities	Credit Secu	01/15/2013	RESULTING
12	 Pending	999-5030	Abbot, Joel	Equities	ROP	01/15/2013	RESULTING
13	 Pending	999-5030	Abbot, Joel	Equities	ROP	01/15/2013	RESULTING
14	 Pending	999-5030	Abbot, Joel	Equities	Debit Secur	01/15/2013	ORIGINAL
15	 Pending	999-5300	Daniels, Patrick	Equities	Credit Secu	01/15/2013	RESULTING
16	 Pending	999-5300	Daniels, Patrick	Equities	ROP	01/15/2013	RESULTING
17	 Pending	999-5300	Daniels, Patrick	Equities	Debit Secur	01/15/2013	ORIGINAL
18	 Pending	999-7033	Baker, Joey	Equities	Credit Secu	01/15/2013	RESULTING
19	 Pending	999-7033	Baker, Joey	Equities	Credit Secu	01/15/2013	RESULTING
20	 Pending	999-7033	Baker, Joey	Equities	ROP	01/15/2013	RESULTING

Review the transactions created by the merger-exchange wizard. Transactions you should see after using the Merger-Exchange for a share and cash exchange are:

- Debit security transactions for all positions of the original security or the security being merged into the resulting company.
- Credit security transactions for the resulting company. There should be one credit for each open trade lot of the security being merged
- Long and/or Short Term gain distributions to account for the taxable cash portion of the exchange. The gains and losses are calculated per trade lot, and then combined to create a net effect per portfolio. For more information about the calculation of these transactions, see [Understanding the Transactions After a Cash/Stock Merger](#). As applicable, the transactions you should see are:
  - Only Gains: one transaction for total of all long term gain and one transaction for all short term gain.
  - Only Losses: ROP transactions for trade lot producing a loss
  - Both Gains and Losses: one transaction for the total of long-term gain, one transaction for the total of short term gain and ROP transactions for each trade lot producing a loss. It is possible to have gain distributions and ROP transactions in one portfolio.
  - Sell of fractional shares of the new company for cash in lieu. See [Methods for Handling Cash in Lieu for Fractional Shares](#) for more information about handling cash in lieu for fractional shares.

If all transactions exist as you expect them to appear, Close the details of the list and post the transactions. You have two ways of posting the list from the transaction lists view:

- Select the list, and then click the **Post List** button located at the bottom right of the window.
- Right-click the list and select **Post List** from the menu.



### Warning

Because of posting order, it is important to post the entire transaction list at once – rather than select the transactions and post – when you have a partial cash/stock transaction. It is especially important if you have any ROP transactions to account for losses for the transaction.

## SHARE EXCHANGE TRANSACTION

A merger/exchange is a transaction that either combines two different companies into one (Exxon and Mobile became Exxon Mobile, for example) or where one company completely absorbs another company (Bank One was absorbed by JP Morgan). Follow the steps below to account for most mergers of only shares.

### WIZARD SETTINGS

Enter the information for the original security or the security that no longer exists after the merger:

- Merger/Exchange date
- Security type (usually equities)
- Original symbol
- Original security's price per share on the day of exchange
- Any notes (usually a description of the merger/exchange)

Click **Next**.

Merger/Exchange Wizard - Original security

Enter the information for the original security

Merger/Exchange Date: 12/30/2014

Security Type: Equities

Symbol: ORIGINAL SECURITY SYMBOL

Price per share: 50.00

Notes: Enter a description of the corporate action

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Enter the information for the new security:

- Security type (usually equities)
- Symbol for resulting company
- Share exchange ratio, entered as decimal.
- Cash Proceeds – do not check this box if the transaction includes only an exchange of shares.
- Conversion price for cash in lieu – if you leave this blank, a sell for \$0.00 is created to remove the fractional share. If you enter a number here, a sell for the price entered is generated for the fractional share.

Merger/Exchange Wizard - Merger Proceeds

Enter the information for the proceeds of the merger

Security Type: Equities

Symbol: RESULTING SECURITY

Share Exchange Ratio: .75

Cash Proceeds:

Fair Market Value: 0.00

Cash Distribution Ratio: 0.00

Conversion price for cash in lieu of fractional shares: 0.00

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## EXPECTED TRANSACTIONS

Merger/Exchange for Security Name								
File Edit View Window Tools Help								
Global Transactions								
	Status	Account Number	Portfolio	Security Type	Activity	Trade Date	Quantity	Symbol
1	 Pending	999-1017	Connor, James	Equities	Credit Secur	01/15/2013	75.00	RESULTING
2	 Pending	999-1017	Connor, James	Equities	Debit Secur	01/15/2013	100.00	ORIGINAL
3	 Pending	999-2012	Bishop, Steven	Equities	Credit Secur	01/15/2013	75.00	RESULTING
4	 Pending	999-2012	Bishop, Steven	Equities	Debit Secur	01/15/2013	100.00	ORIGINAL
5	 Pending	999-3003	Alexander, Jen	Equities	Credit Secur	01/15/2013	75.00	RESULTING
6	 Pending	999-3003	Alexander, Jen	Equities	Debit Secur	01/15/2013	100.00	ORIGINAL
7	 Pending	999-5030	Abbot, Joel	Equities	Credit Secur	01/15/2013	225.00	RESULTING
8	 Pending	999-5030	Abbot, Joel	Equities	Credit Secur	01/15/2013	75.00	RESULTING
9	 Pending	999-5030	Abbot, Joel	Equities	Debit Secur	01/15/2013	400.00	ORIGINAL
10	 Pending	999-5300	Daniels, Patrick	Equities	Credit Secur	01/15/2013	75.00	RESULTING
11	 Pending	999-5300	Daniels, Patrick	Equities	Debit Secur	01/15/2013	100.00	ORIGINAL
12	 Pending	999-7033	Baker, Joey	Equities	Credit Secur	01/15/2013	150.00	RESULTING
13	 Pending	999-7033	Baker, Joey	Equities	Credit Secur	01/15/2013	75.00	RESULTING
14	 Pending	999-7033	Baker, Joey	Equities	Debit Secur	01/15/2013	300.00	ORIGINAL

Check the transactions in the blotter that were created after the merger/exchange. Transactions you should see after the merger/exchange:

- Debit security transactions for all portfolios that hold the original security or the security that is being merged into the resulting company.
- Credit security transactions for the resulting company. There should be one credit for each open trade lot of the security that was being merged. Each security

Sell of any fractional shares of the new company for cash in lieu. If you entered \$0.01 for the cash in lieu price, you'll see sells for fractional shares of \$0.00. See [Methods for Handling Cash in Lieu for Fractional Shares](#) for more information about handling cash in lieu for fractional shares.

If all transactions exist as you expect them to appear, Close the details of the list and post the transactions.

You have two ways of posting the list from the transaction lists view:

- Select the list, and then click the **Post List** button located at the bottom right of the window.
- Right-click the list and select **Post List** from the menu.

## SYMBOL CHANGE

The final use of the Merger/Exchange wizard is to account for a symbol change. In this scenario, the portfolio's overall position and cost basis remains the same, but the symbol changes. Use the

Merger/Exchange wizard to show a distinct difference in the symbol name, but still account for the trade lot and cost basis information. For example,

## WIZARD SETTINGS

Enter the information for the original security or the security that no longer exists after the merger:

- Merger/Exchange date
- Security type (usually equities)
- Original symbol
- Original security's price per share on the day before the exchange
- Any notes (usually a description of the merger/exchange)

Click **Next**.

Enter the information for the new security:

- Security type (usually equities)
- New symbol
- Share exchange ratio - In this case, the exchange is 1 for 1, so enter 1.0 in this field.
- Cash Proceeds – do not check this box if the transaction includes only an exchange of shares.
- Conversion price for cash in lieu – Leave this field blank. No fractional shares should be generated as a result of this transaction

The screenshot shows the 'Merger/Exchange Wizard - Original security' dialog box. It contains the following fields and controls:

- Merger/Exchange Date: 12/30/2014 (dropdown)
- Security Type: Equities (dropdown)
- Symbol: ORIGINAL SECURITY SYMBOL (text field with browse button)
- Price per share: 50.00 (text field)
- Notes: Enter a description of the corporate action (text area)
- Buttons: < Back, Next >, Cancel, Help

The screenshot shows the 'Merger/Exchange Wizard - Merger Proceeds' dialog box. It contains the following fields and controls:

- Security Type: Equities (dropdown)
- Symbol: RESULTING SECURITY (text field with browse button)
- Share Exchange Ratio: 1.0 (text field)
- Cash Proceeds:  (checkbox)
- Fair Market Value: 0.00 (text field)
- Cash Distribution Ratio: 0.00 (text field)
- Conversion price for cash in lieu of fractional shares: 0.00 (text field)
- Buttons: < Back, Next >, Cancel, Help

## EXPECTED TRANSACTIONS

Merger/Exchange for Security Name								
File Edit View Window Tools Help								
Global Transactions								
	Status	Account Number	Portfolio	Security Type	Activity	Trade Date	Quantity	Symbol
1	 Pending	999-1017	Connor, James	Equities	Credit Secur	01/15/2013	100.00	RESULTING
2	 Pending	999-1017	Connor, James	Equities	Debit Secur	01/15/2013	100.00	ORIGINAL
3	 Pending	999-2012	Bishop, Steven	Equities	Credit Secur	01/15/2013	100.00	RESULTING
4	 Pending	999-2012	Bishop, Steven	Equities	Debit Secur	01/15/2013	100.00	ORIGINAL
5	 Pending	999-3003	Alexander, Jen	Equities	Credit Secur	01/15/2013	100.00	RESULTING
6	 Pending	999-3003	Alexander, Jen	Equities	Debit Secur	01/15/2013	100.00	ORIGINAL
7	 Pending	999-5030	Abbot, Joel	Equities	Credit Secur	01/15/2013	300.00	RESULTING
8	 Pending	999-5030	Abbot, Joel	Equities	Credit Secur	01/15/2013	100.00	RESULTING
9	 Pending	999-5030	Abbot, Joel	Equities	Debit Secur	01/15/2013	400.00	ORIGINAL
10	 Pending	999-5300	Daniels, Patrick	Equities	Credit Secur	01/15/2013	100.00	RESULTING
11	 Pending	999-5300	Daniels, Patrick	Equities	Debit Secur	01/15/2013	100.00	ORIGINAL
12	 Pending	999-7033	Baker, Joey	Equities	Credit Secur	01/15/2013	200.00	RESULTING
13	 Pending	999-7033	Baker, Joey	Equities	Credit Secur	01/15/2013	100.00	RESULTING
14	 Pending	999-7033	Baker, Joey	Equities	Debit Secur	01/15/2013	300.00	ORIGINAL

Check the transactions in the blotter that were created after the merger/exchange. Transactions you should see after the merger/exchange:

- Debit security transactions for all portfolios that hold the original security or the security that is being merged into the resulting company.
- Credit security transactions for the resulting company. There should be one credit for each open trade lot of the security that was being merged. Each security

If all transactions exist as you expect them to appear, Close the details of the list and post the transactions.

You have two ways of posting the list from the transaction lists view:

- Select the list, and then click the **Post List** button located at the bottom right of the window.
- Right-click the list and select **Post List** from the menu.

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