

Importing and Reconciling Tax Lot Data in Morningstar Office

Overview	-1
What is a tax lot?	-1
For which custodians can cost basis lots be reconciled?	-2
How does cost basis reconciliation fit within the usual import process?	-2
What if I do not have a transactions file on the day I want to reconcile cost basis?	-3
Can I choose to not reconcile a particular security in an account?	-3
What is the Excluded Lots blotter for?	-3
What are the possible outcomes when I import and reconcile cost basis lots?	-4
What methods of reconciliation are available?	-5
How do I reconcile using the Split Initialized Lots method?	-6
How do I reconcile using the Re-Initialize Lots method?	-9
How do I manually edit a lot?	12
How do I reconcile using the Update Cost to Match Custodian method?	14

Importing and Reconciling Tax Lot Data in Morningstar Office

Morningstar has developed a cost basis reconciliation tool that allows users to reconcile the cost basis and lot information in Morningstar Office compared to that of certain custodians. This document explains how to import and reconcile these lots in Morningstar Office. This can be done as part of the regular import process.

The following topics are covered:

- ▶ What is a tax lot
- ▶ What the advantages are of importing and reconciling tax lot data, and
- ▶ How to import and reconcile tax lot data.

In Morningstar Office, a portfolio's realized and unrealized gains and losses are calculated based on the per-share cost basis for a security. The per-share cost basis is the price at which the share, or a "lot" of shares, were purchased.

The original purchase date of shares (or the "lot" of shares) can also be used to differentiate between long- and short-term gains and losses in reports.

 Note: Performance calculations (both IRR and TWR) are not dependent on per-share cost basis.

The per-share cost basis is usually populated in advisors' accounting systems from their data. This data is usually imported from the custodians' or data aggregators' transaction files and/or can be manually entered using a transaction wizard or blotter.

When cost basis and lot information is reconciled, the tool is basically comparing everything in Morningstar Office's accounting system to the cost basis file from the advisors' custodian(s).

 Note: Be sure to download the cost basis file from your custodian.

The cost basis file from a custodian on a particular day contains the cost basis and lot information of all the positions that are held across portfolios as of that particular day.

Overview

What is a tax lot?

The following table details which custodians offer importing and reconciling cost basis lots, and which file(s) you need to be sure to download from each custodian:

For this custodian...	Be sure to download this file...
Fidelity Wealth Central	fimmddy.UGL
Pershing InfoDirect	mmddy.POTL
Schwab	CRSyyyymmdd.ULT – Unrealized Gain/Loss Open Lot Taxable file CRSyyyymmdd.ULN – Unrealized Gain/Loss Open Lot Non-taxable file
TD Ameritrade	TDyymmdd.CBL – Cost Basis Open Lot file.

For which custodians can cost basis lots be reconciled?

Before conducting cost basis reconciliation, users need to both initialize client positions (or have their previous database converted to Morningstar Office), and import any transactions prior to the date of your cost basis files. After initializing and reconciling the transaction data, you can bring in the cost basis data.

How does cost basis reconciliation fit within the usual import process?

Note the following important points:

- ▶ The easiest time to perform the cost basis reconciliation is immediately after the initialization process, as this allows you to use the Split Initialized Lots function, based on the existing deliver-in transactions prior to any sell transactions posting.
- ▶ Once a sell transaction posts for a holding, you can no longer use the Split Initialized Lots function, which is the optimal method, since this provides cost basis for the entire history of an account in Morningstar Office.

☞ Only users who are first importing for a custodian that offers cost basis reconciliation within Morningstar Office will be able to take advantage of this optimal timing.

To ensure an accurate share balance prior to reconciling the cost basis, all necessary transactions must have been imported prior to cost basis reconciliation. Note the following points about transactions and cost basis:

- ▶ If you can delay reconciling your cost basis, you can wait until the next day you have a transaction file to reconcile your cost basis.
- ▶ If you need to reconcile your cost basis, but you do not have a transaction file, you can create a blank transaction file for the day you are importing. To do this, look at the previous day's transaction file, and mimic the naming convention for the date you are importing. Do the following:
 1. Open a **Notepad** document.
 2. Save the file with the proper file naming convention, as shown in the following table:

Custodian	Format
TD	TDyymmdd.TRN
Schwab Portfolio Center	Centerpiece formatted files - CSmmdyy.TRD
	Portfolio Center formatted files – PCmmdyy.SLT

3. When you import for the day, the Transaction File box should be checked on the Custodian dialog box, and you should have no transactions in your Transactions blotter.

No, it is not possible to exclude certain holdings in an account from being reconciled.

If you exclude a holding from being included in the normal share balance reconciliation, then it is also excluded from cost basis reconciliation, and will show up in this blotter. These holdings would typically be ones not held at the custodian, but are in the client's account in Morningstar Office.

To exclude a holding from the normal share balance reconciliation (which also excludes it from cost basis reconciliation) do the following:

1. Go to your **Failed Blotter**.
2. Select the holding by checking the **box** to the left of its name.
3. From the toolbar above the grid view, select **Action... Exclude Holding**. A dialog box opens, asking "Are you sure you want to exclude the selected holdings from all future reconciliation?"
4. Click **Yes** to exclude the selected holdings; click **No** to cancel.

What if I do not have a transactions file on the day I want to reconcile cost basis?

Can I choose to not reconcile a particular security in an account?

What is the Excluded Lots blotter for?

When reconciling cost basis lots, one of three outcomes could occur. The table below shows what these outcomes are, and what each means.

What are the possible outcomes when I import and reconcile cost basis lots?

Outcome	Explanation
Both the lots and cost basis reconcile successfully	If an account successfully reconciles cost basis and lot information, your unrealized gain/loss calculations in Morningstar Office will be accurate when compared to the custodian. No further action needs to be taken.
Mismatched lot information is found	<p>If a security has mismatched lot information, this means the lots of a particular security in Morningstar Office are not matching the lots held in the custodian's cost basis file (which represents what is at the custodian).</p> <p>A common reason for this is that the shares in the account in Morningstar Office show as one complete lot (represented by one deliver-in as of the date those shares were transferred into the account, or when the data was initialized), while the custodian has many transactions for purchases of the security.</p> <p>Here are some other reasons why mismatched lots occur:</p> <ul style="list-style-type: none"> ▶ the Closing Transaction matching method differs between Morningstar Office and the custodian ▶ a tax lot matching optimization difference ▶ a corporate action processing difference (e.g., a different fair market value calculation) ▶ a wash sale cost basis adjustment ▶ cost basis step up due to death ▶ missing original cost basis ▶ amortization/accretion difference ▶ return of principle, and ▶ original issue discount annual accrued income. <p>The cost basis reconciliation tool can help fix this discrepancy by splitting lots in Morningstar Office to match those from the custodian.</p>
Mismatched cost basis is found	<p>This means the cost basis of a particular lot in Morningstar Office is not matching up with the cost basis of the lot in the cost basis file.</p> <p>The cost basis reconciliation tool can help fix this discrepancy by allowing you to create adjust cost transactions that will allow you to adjust the cost of lots that may not have the same cost basis as is reported in the cost basis file.</p>

After you have imported and posted your client data, you are taken to the Lots blotter. You can use any of the four methods of lot reconciliation which are built in to the Lots blotter. The following table explains the four options available when reconciling lot information:

What methods of reconciliation are available?

Method	Description
Split Initialized Lots	<p>This function breaks up one, complete lot (represented by a deliver-in of shares) in Morningstar Office to multiple deliver-ins. Each deliver-in represents one lot with a unique cost basis and original purchase date.</p> <p>Note: the original purchase date is not the trade date of the transaction being split. The trade date remains the date of the deliver-in, but another field is populated with the custodian's original purchase dates.</p> <p>This tool works only for open positions that have not been partially closed since they came into the account (on the deliver-in date).</p> <p>To address lots for partially closed shares, you might have to manually edit the deliver-in record in Morningstar Office, unless you have cost information for the closed position(s).</p>
Re-initialize Lots	<p>This tool is the easier and faster way of the two options. If you chose to use this method, the tool will debit out your lot/lots with missing information and credit back in the positions broken down by lots and the correct cost basis as of the day your are reconciling.</p> <p>If you adjust your lot information this way, your gain/loss reports will only be accurate or complete from this day going forward. Historical gain/loss reports may not be accurate.</p>
Manually Edit a Lot	<p>If the number of lots from the custodian matches the number of lots in Morningstar Office, you may need to simply adjust data such as the Acquisition Date, or Number of Shares, or Price.</p>
Update Cost to Match Custodian	<p>This option is available in the Mismatched Cost Basis blotter only, and simply updates the Morningstar Cost Per Share with the custodian-provided Custodian Cost Per Share.</p>

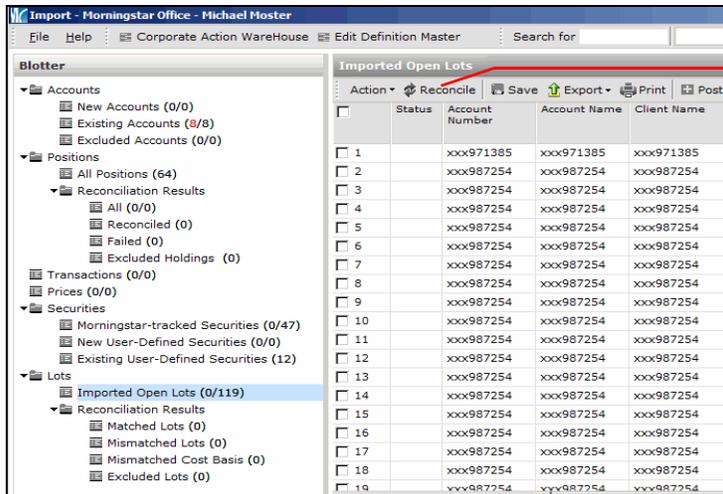
If you are concerned about reporting only on **unrealized** gains and losses, then the re-initialize lots option is probably the least time-consuming option, and relatively easier to use than the others, since the tool simply re-establishes your open lots to match your custodian as of the day you are reconciling.

If, however, you are concerned about reporting **realized** gains and losses, then a combination of splitting lots and manually editing deliver-in transactions will be required to ensure accurate reporting.

To split initialized lots, do the following:

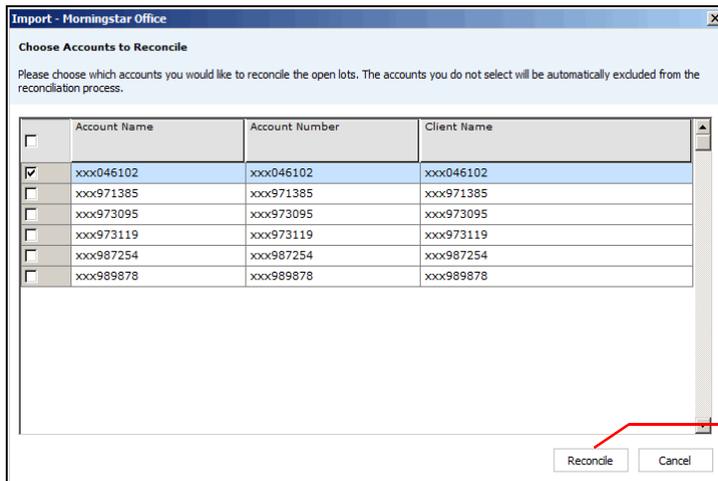
1. Complete the standard import process, and post the data to Morningstar Office; you are automatically taken to the Imported Open Lots blotter.
2. Click the **Reconcile** button. The Choose Accounts to Reconcile dialog box opens.

How do I reconcile using the Split Initialized Lots method?



Click the Reconcile icon

3. In the Choose Accounts to Reconcile dialog box, **select one or more accounts**.
4. From the toolbar above the grid view, click the **Reconcile** icon. A warning message opens, informing you some lots did not reconcile.



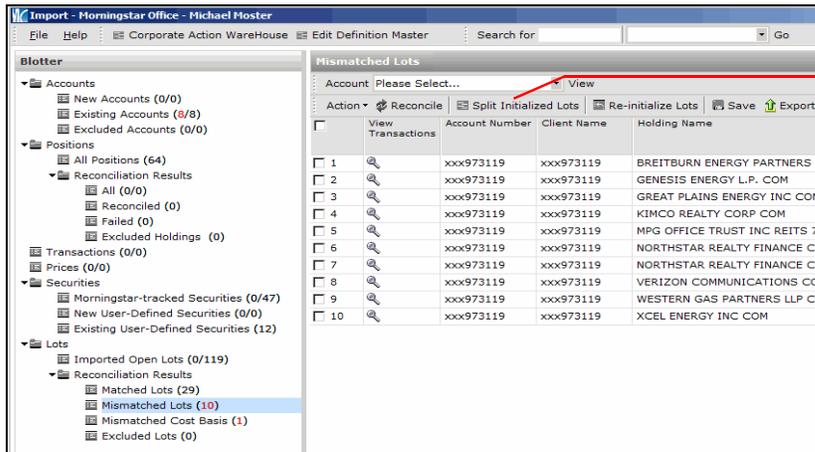
Click the Reconcile button

5. Click **OK** to clear the warning message. You are taken to the Mismatched Lots blotter, listing the securities with unreconciled lots.



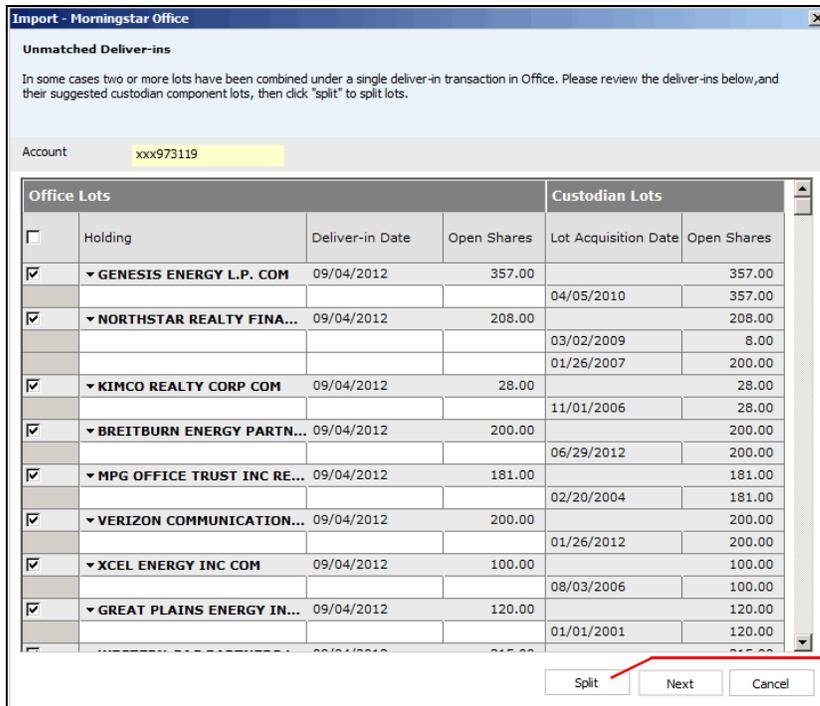
Click OK

- On the Mismatched Lots blotter, **select one or more of the securities** with mismatched lots.
 - Note: Selecting multiple or all securities makes the process more efficient, since you won't have to return to this step for other securities.
- From the toolbar above the grid view, click the **Split Initialized Lots** icon. The Unmatched Deliver-Ins dialog box opens.



Click the Split Initialized Lots icon

- The Unmatched Deliver-Ins dialog box shows the lot data currently in Morningstar Office, as well as the data provided by the custodian. Click the **Split** button.



Click Split

- The Deliver-in Date or Open Shares columns in the Office Lots area of the grid view will populate with the custodian-provided data. Click **Next** to close the Unmatched Deliver-Ins dialog box.

Import - Morningstar Office

Unmatched Deliver-ins

In some cases two or more lots have been combined under a single deliver-in transaction in Office. Please review the deliver-ins below, and their suggested custodian component lots, then click "split" to split lots.

Account: xxx973119

Office Lots				Custodian Lots	
<input type="checkbox"/>	Holding	Deliver-in Date	Open Shares	Lot Acquisition Date	Open Shares
<input checked="" type="checkbox"/>	▼ GENESIS ENERGY L.P. COM	09/04/2012	357.00		357.00
		04/05/2010	357.00	04/05/2010	357.00
<input checked="" type="checkbox"/>	▼ NORTHSTAR REALTY FINA...	09/04/2012	208.00		208.00
		03/02/2009	8.00	03/02/2009	8.00
		01/26/2007	200.00	01/26/2007	200.00
<input checked="" type="checkbox"/>	▼ KIMCO REALTY CORP COM	09/04/2012	28.00		28.00
		11/01/2006	28.00	11/01/2006	28.00
<input checked="" type="checkbox"/>	▼ BREITBURN ENERGY PARTN...	09/04/2012	200.00		200.00
		06/29/2012	200.00	06/29/2012	200.00
<input checked="" type="checkbox"/>	▼ MPG OFFICE TRUST INC RE...	09/04/2012	181.00		181.00
		02/20/2004	181.00	02/20/2004	181.00
<input checked="" type="checkbox"/>	▼ VERIZON COMMUNICATION...	09/04/2012	200.00		200.00
		01/26/2012	200.00	01/26/2012	200.00
<input checked="" type="checkbox"/>	▼ XCEL ENERGY INC COM	09/04/2012	100.00		100.00
		08/03/2006	100.00	08/03/2006	100.00
<input checked="" type="checkbox"/>	▼ GREAT PLAINS ENERGY IN...	09/04/2012	120.00		120.00
		01/01/2001	120.00	01/01/2001	120.00

Buttons: Split, Next, Cancel

Click Next

- The next screen allows you to review the new data for the security or securities. If you are satisfied, click the **Post** button. A confirmation message opens.

Split Initialized Lots - Import - Morningstar Office - Michael Hoster

File Help Send us feedback

Split Deliver-in Transactions

Action Export Print

<input type="checkbox"/>	Status	Account Number	Account Name	Holding Name	Ticker	Security ID	Transaction Date	Transaction Type	Net Amou
<input type="checkbox"/>		xxx973119	xxx973119	GENESIS ENERGY L.P. COM	GEL		9/4/2012	Deliver-in	11,541.81
<input type="checkbox"/>		xxx973119	xxx973119	NORTHSTAR REALTY FINANCE CO	NRF		9/4/2012	Deliver-in	47.12
<input type="checkbox"/>		xxx973119	xxx973119	NORTHSTAR REALTY FINANCE CO	NRF		9/4/2012	Deliver-in	1,178.00
<input type="checkbox"/>		xxx973119	xxx973119	KIMCO REALTY CORP COM	KIM		9/4/2012	Deliver-in	573.72
<input type="checkbox"/>		xxx973119	xxx973119	BREITBURN ENERGY PARTNERS L	BBEP		9/4/2012	Deliver-in	3,832.00
<input type="checkbox"/>		xxx973119	xxx973119	MPG OFFICE TRUST INC REITS 7	MPGPRA		9/4/2012	Deliver-in	4,159.38
<input type="checkbox"/>		xxx973119	xxx973119	VERIZON COMMUNICATIONS CO	VZ		9/4/2012	Deliver-in	8,740.00
<input type="checkbox"/>		xxx973119	xxx973119	XCEL ENERGY INC COM	XEL		9/4/2012	Deliver-in	2,808.00
<input type="checkbox"/>		xxx973119	xxx973119	GREAT PLAINS ENERGY INC COM	GXP		9/4/2012	Deliver-in	2,601.60
<input type="checkbox"/>		xxx973119	xxx973119	WESTERN GAS PARTNERS LLP CO	WES		9/4/2012	Deliver-in	15,041.25

Buttons: Post, Cancel

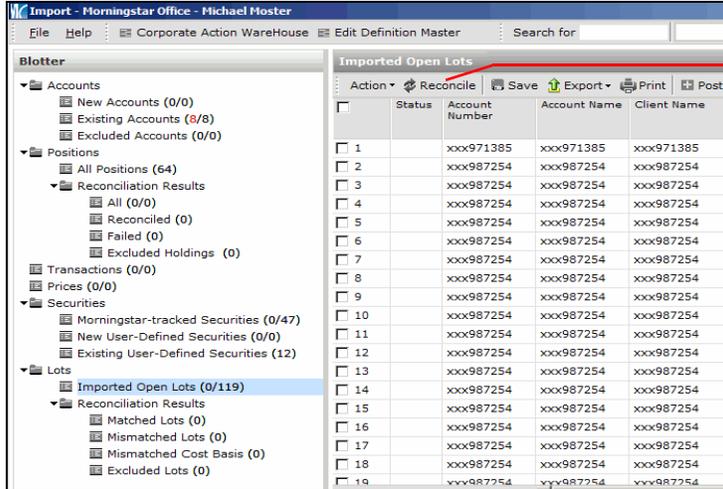
Click Post

- Click **OK**.

To re-initialize lots, do the following:

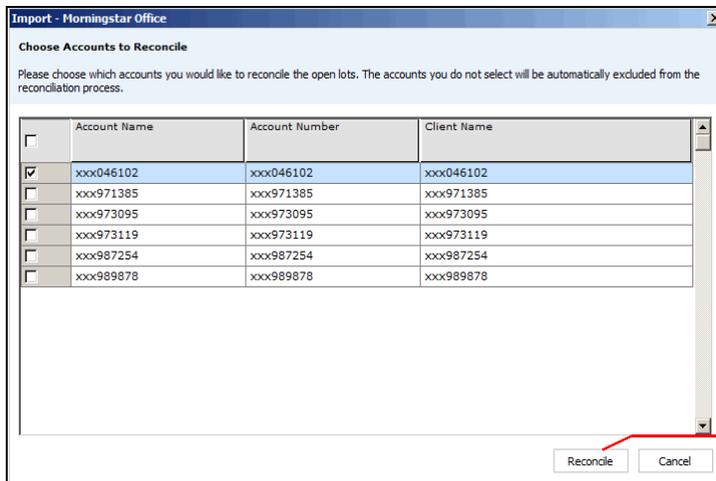
1. Complete the standard import process and post the data to Morningstar Office; you are automatically taken to the Imported Open Lots blotter.
2. From the toolbar above the grid view, click the **Reconcile** icon. The Choose Accounts to Reconcile dialog box opens.

How do I reconcile using the Re-Initialize Lots method?



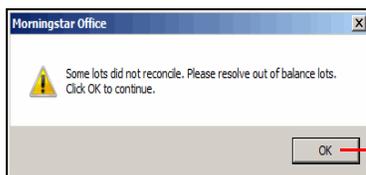
Click the Reconcile icon

3. In the Choose Accounts to Reconcile dialog box, **select one or more accounts** to reconcile.
4. Click the **Reconcile** button. A warning message opens, informing you some lots did not reconcile.



Click Reconcile

5. To clear the warning message, click **OK**. The Mismatched Lots blotter opens, listing the securities that did not reconcile.

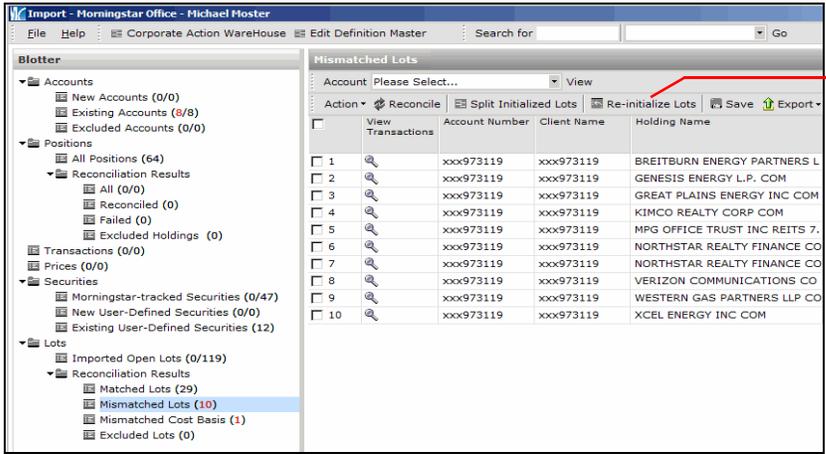


Click OK

6. **Select one or more of the securities** with mismatched lots.

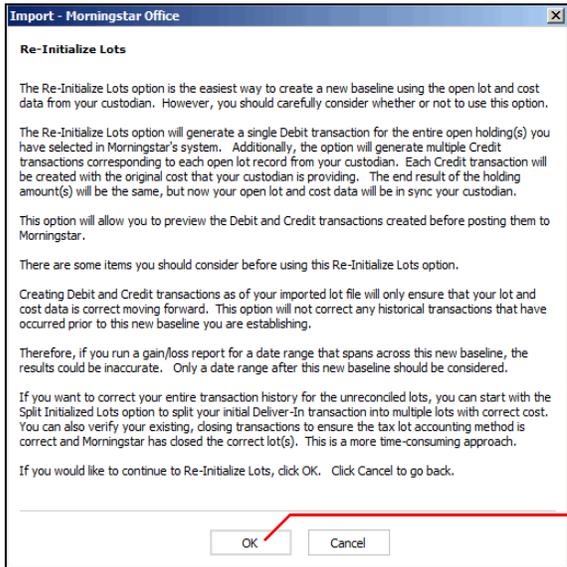
Note: Selecting multiple or all securities makes the process more efficient, since you will not have to return to this step for other securities.

7. From the toolbar above the grid area, click the **Re-initialize Lots** icon. A dialog box opens, describing the process and consequences of Re-Initializing.



Click the Re-Initialize Lots icon

8. After reading the message, click **OK** to continue. The Re-initialize Lots dialog box



Click OK

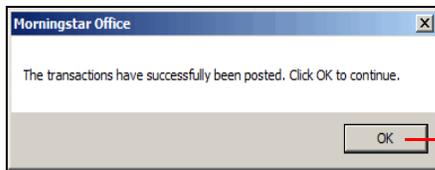
opens.

- In the Re-initialize Lots dialog box, review the debits and credits provided by the custodian, then click **Post**. A confirmation message opens.

Action	Status	Account Number	Account Name	Holding Name	Ticker	Security ID	Transaction Date	Transaction Type	Net Amou
<input type="checkbox"/>		xxx973119	xxx973119	GENESIS ENERGY L.P. COM	GEL		9/28/2012	Debit of Secur	12,005.91
<input type="checkbox"/>		xxx973119	xxx973119	GENESIS ENERGY L.P. COM	GEL		9/28/2012	Credit of Secu	12,005.91
<input type="checkbox"/>		xxx973119	xxx973119	GREAT PLAINS ENERGY INC COM	GXP		9/28/2012	Debit of Secur	2,671.20
<input type="checkbox"/>		xxx973119	xxx973119	GREAT PLAINS ENERGY INC COM	GXP		9/28/2012	Credit of Secu	2,671.20
<input type="checkbox"/>		xxx973119	xxx973119	KIMCO REALTY CORP COM	KIM		9/28/2012	Debit of Secur	567.56
<input type="checkbox"/>		xxx973119	xxx973119	KIMCO REALTY CORP COM	KIM		9/28/2012	Credit of Secu	567.56
<input type="checkbox"/>		xxx973119	xxx973119	NORTHSTAR REALTY FINANCE CO NRF	NRF		9/28/2012	Debit of Secur	1,322.88
<input type="checkbox"/>		xxx973119	xxx973119	NORTHSTAR REALTY FINANCE CO NRF	NRF		9/28/2012	Credit of Secu	50.88
<input type="checkbox"/>		xxx973119	xxx973119	NORTHSTAR REALTY FINANCE CO NRF	NRF		9/28/2012	Credit of Secu	1,272.00
<input type="checkbox"/>		xxx973119	xxx973119	VERIZON COMMUNICATIONS CO VZ	VZ		9/28/2012	Debit of Secur	9,114.00
<input type="checkbox"/>		xxx973119	xxx973119	VERIZON COMMUNICATIONS CO VZ	VZ		9/28/2012	Credit of Secu	9,114.00
<input type="checkbox"/>		xxx973119	xxx973119	XCEL ENERGY INC COM	XEL		9/28/2012	Debit of Secur	2,771.00
<input type="checkbox"/>		xxx973119	xxx973119	XCEL ENERGY INC COM	XEL		9/28/2012	Credit of Secu	2,771.00
<input type="checkbox"/>		xxx973119	xxx973119	BREITBURN ENERGY PARTNERS L BBEP	BBEP		9/28/2012	Debit of Secur	3,886.00
<input type="checkbox"/>		xxx973119	xxx973119	BREITBURN ENERGY PARTNERS L BBEP	BBEP		9/28/2012	Credit of Secu	3,886.00
<input type="checkbox"/>		xxx973119	xxx973119	MPG OFFICE TRUST INC REITS 7. MPGPR	MPGPR		9/28/2012	Debit of Secur	4,079.74
<input type="checkbox"/>		xxx973119	xxx973119	MPG OFFICE TRUST INC REITS 7. MPGPR	MPGPR		9/28/2012	Credit of Secu	4,079.74
<input type="checkbox"/>		xxx973119	xxx973119	WESTERN GAS PARTNERS LLP CO WES	WES		9/28/2012	Debit of Secur	15,879.15
<input type="checkbox"/>		xxx973119	xxx973119	WESTERN GAS PARTNERS LLP CO WES	WES		9/28/2012	Credit of Secu	15,879.15

Click Post

- To clear the message, click **OK**.

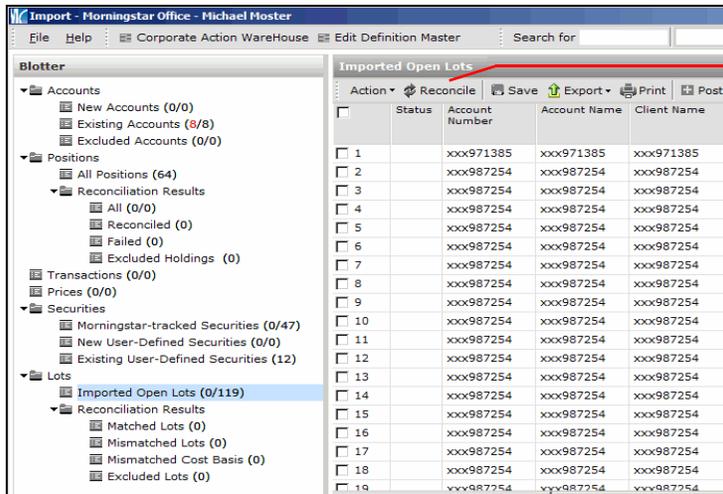


Click OK

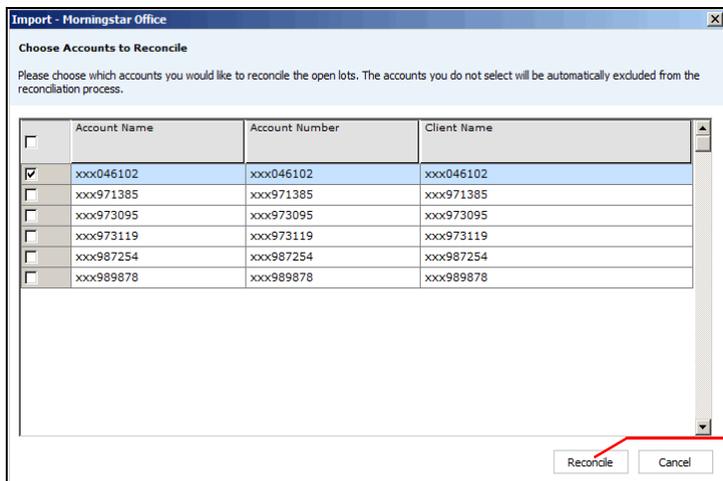
To manually edit a lot, do the following:

1. Complete the standard import process and post the data to Morningstar Office; you are automatically taken to the Imported Open Lots blotter.
2. From the toolbar above the grid view, click the **Reconcile** icon. The Choose Accounts to Reconcile dialog box opens.

How do I manually edit a lot?



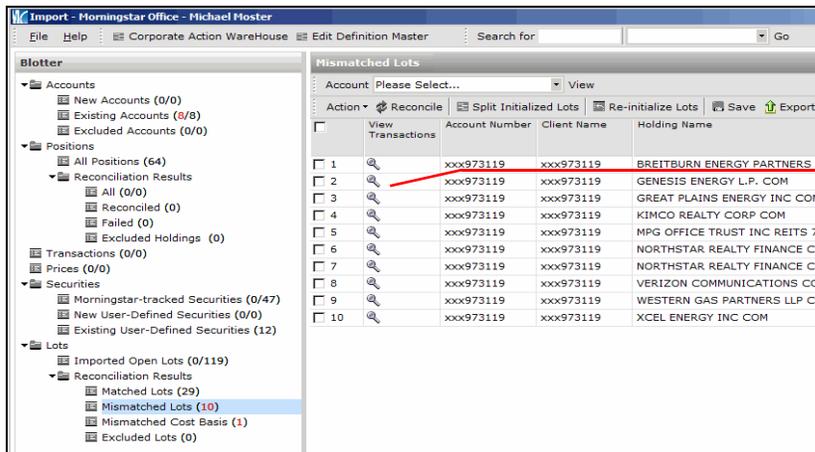
3. In the Choose Accounts to Reconcile dialog box, **select one or more accounts** to reconcile.
4. Click the **Reconcile** button. A warning message opens, informing you some lots did not reconcile.



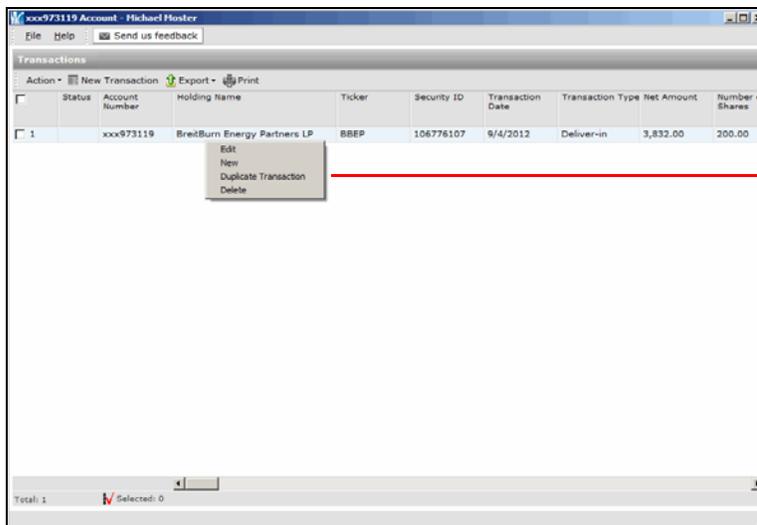
5. To clear the warning message, click **OK**. The Mismatched Lots blotter opens, listing the securities with mismatched lots.



- Click in the **View Transactions** field for a security. The Transactions dialog box opens.



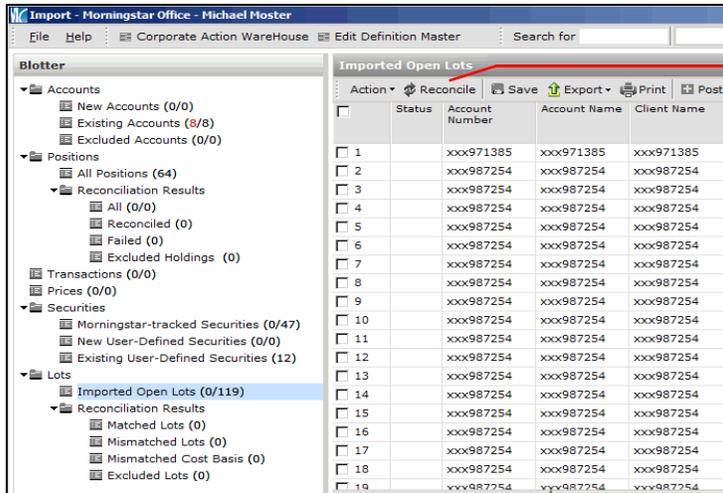
- Using the data displayed in the Transactions dialog box, you need to determine on a case-by-case basis how to solve the mismatched lots. Solving the issue might involve **right-clicking** on a transaction and selecting **Edit**, or to create a **New** transaction.



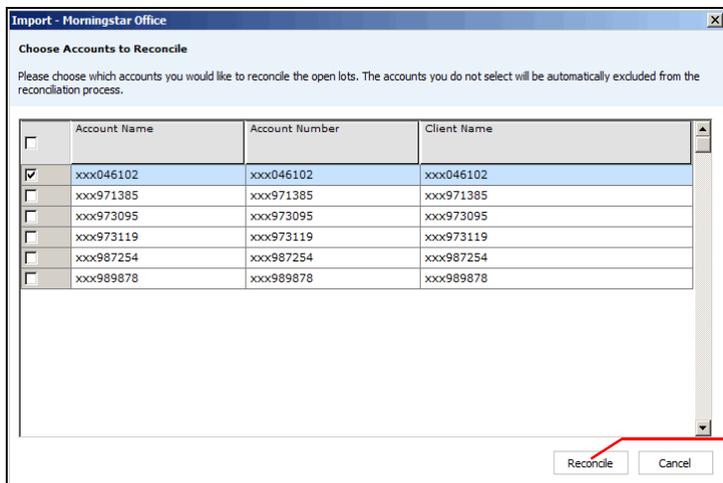
To use the Update Cost to Match Custodian method to reconcile your lot data, do the following:

1. Complete the standard import process and post the data to Morningstar Office; you are automatically taken to the Imported Open Lots blotter.
2. From the toolbar above the grid view, click the **Reconcile** icon. The Choose Accounts to Reconcile dialog box opens.

How do I reconcile using the Update Cost to Match Custodian method?



3. In the Choose Accounts to Reconcile dialog box, **select one or more accounts to reconcile**.
4. Click the **Reconcile** button. A warning message opens, informing you some lots did not reconcile.

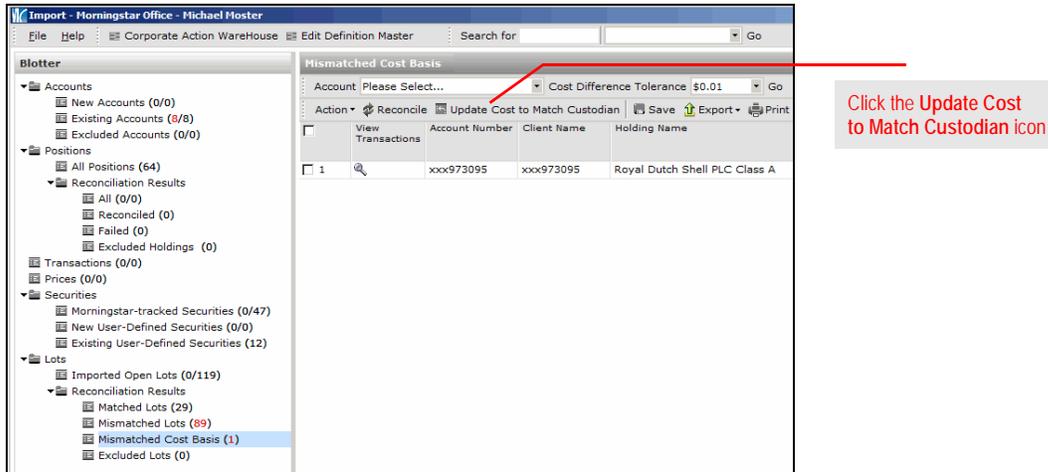


5. To clear the warning message, click **OK**.

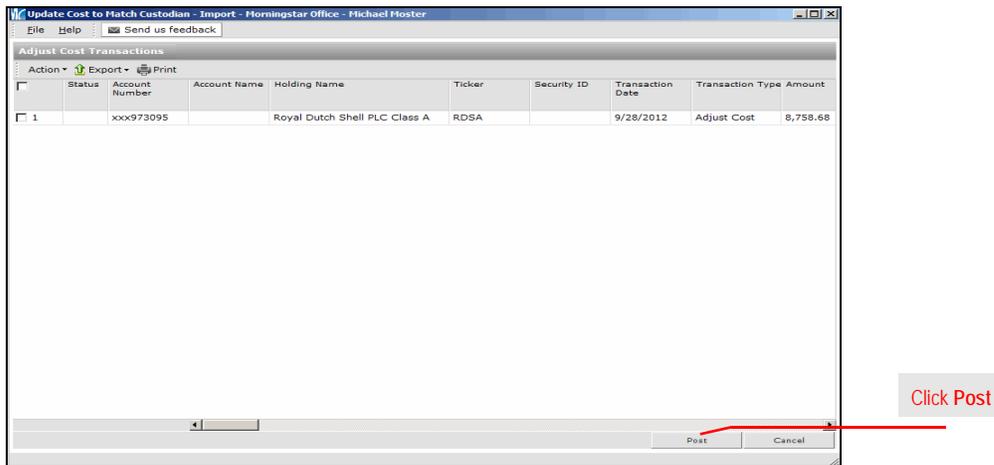


6. In the Mismatched Cost Basis blotter, **select one or more of the securities**.
7. From the toolbar above the grid view, click the **Update Cost to Match Custodian** icon. The Update Cost to Match Custodian dialog box opens.

Note: Selecting multiple or all securities makes this process more efficient, as you will not have to return to this step.



8. In the Update Cost to Match Custodian dialog box, click **Post**. A confirmation message



- opens.
9. To clear the message, click **OK**.

