

DELAYED MAILING OF 1099 STATEMENTS

For the purpose of reducing or eliminating your 1099 corrections, the mailing of your 1099 Consolidated Tax Statement will be delayed until the third week of February for holders of Registered Investment Companies (RICs) (i.e., Mutual Funds, which include Close-End Funds and certain equities), Real Estate Investment Trusts (REITs), Unit Investment Trusts (UITs), and Widely Held Fixed Investments Trusts (WHFITs) that distributed income in 2014. These types of instruments typically reallocate income from one category to another. Unfortunately, these changes are not always announced in a timely manner, which causes us to issue you a corrected 1099 statement. In addition, you may want to file your tax return closer to the IRS deadline in the event a corrected 1099 is issued due to a late report of income reallocation by these entities. However, if you do not hold these types of instruments, we will mail your 1099 Consolidated Tax Statement by the IRS deadline, February 15th, 2015.

COST BASIS REPORTING FOR OPTIONS & DEBT INSTRUMENTS

The third phase of the Emergency Economic Stabilization Act of 2008 requires financial institutions, such as Wedbush, to begin reporting the cost basis of certain debt instruments and option contracts purchased on and after January 1, 2014. To reflect these new reporting requirements, the IRS has added new boxes to forms 1099-B, 1099-OID and 1099-INT.

FORM 1099-B

The 1099-B has been redesigned to conform to Form 8949, Sales and Other Dispositions of Capital Assets. Box 1f, Adjustment Code, has been added to indicate the types of adjustments: W for wash sale, D for market discount, and C for collectibles. The 1099-B detail section will now include a field for accrued market discount on a sale transaction. In addition, for options contracts that were closed, the 1099-B detail section will display a gain or loss as a positive or negative amount, respectively, and will be reported in Box 1d, Gross Proceeds. For expired long options contracts, the 1099-B detail section will reflect \$0.00 as proceeds and conversely, for expired short options, it will display the amount of your premium as proceeds. Lastly, Option Premium Open/Closed information is being displayed to assist in the calculation of capital gain/loss when an option is assigned or exercised. This information will now be reported to the IRS.

FORM 1099-INT & 1099-OID

Box 10, Market Discount and Box 11, Bond Premium has been added by the IRS to Form 1099-INT. Box 5, Market Discount and Box 6, Acquisition Premium has been added by the IRS to Form 1099-OID. These are secondary market adjustments for OID and non-OID bonds. These calculations are being provided by our service bureau and are applied to your tax lot(s) on each of the payment dates and at other specific events to adjust the cost appropriately. At year-end, these amounts are reported in the above referenced boxes. In order to provide a complete and consistent picture, we will be displaying both covered and non-covered secondary market adjustments. However, we will only be reporting to the IRS those that are covered. These transactions can be identified as "covered" and "non-covered" in the detail section under Activity in your 1099 Consolidated Tax Statement.

1099-OID Box 1, Original Issue Discount (OID) and Box 8, OID on US Treasury Obligations will now display OID as covered and non-covered amounts in the transaction detail section. However, please be aware that all OID is reportable regardless if it is displayed as covered and non-covered.

Although cost basis reporting is not required until the fixed income product is sold, the new regulations do set default elections which will affect our current Amortization and Accretion (A/A) parameters and calculations.

AMORTIZATION & ACCRETION (A/A) ELECTIONS

You can choose an election other than the firm default, which is set by the IRS, on how you would like the amortization of the premium or the accretion of your discount to be calculated. All elections must be made by 12/31 of the year of the purchase. For more detailed information regarding this important election, click on "My Disclosures" at the bottom of your Client Link account for the link to the 2013/2014 tax reporting brochure.

Client Link can be accessed by visiting:
[HTTPS://MYSECURITIESACCOUNT.COM](https://mysecuritiesaccount.com)

WEDBUSH SECURITIES INC.

(As clearing agent for your broker/dealer)

IMPORTANT TAX REPORTING INFORMATION

2014 & 2015

Member NYSE/FINRA/SIPC

WASH SALE RULE FOR OPTIONS & DEBT INSTRUMENTS

The Wash Sale Rule is now being applied to certain covered debt instruments and options. If you sell an option at a loss and subsequently buy the underlying security within the 30-day window, the loss from the option will be disallowed and deferred to the underlying repurchased security.

COMPLEX DEBT INSTRUMENTS & OPTIONS REPORTING

Starting January 1, 2016, Wedbush will begin reporting the cost basis of the more complex debt instruments and options issued as part of a fixed income instrument. Below is a list of the more complex debt instruments:

- REMICs and CMOs
- Contingent payment debt
- Stepped-rate bonds
- Convertible debt
- Contingent payment debt
- Variable rate debt
- STRIPs
- Foreign currency bonds
- Certain tax credit bonds
- PIK bonds
- Foreign issued credit
- Debt issued part of an investment unit
- Short-term debt
- Derivatives (Enhanced Yield Securities)
- Index linked securities/Market Linked CD's/Structured Products
- Redemption Linked Securities/Structured Products
- Deferred Interest
- Debt Issued as part of a UIT/Bond Fund
- Perpetual Maturity Bonds
- Government & Corporate Inflation-Indexed Bonds

FATCA

The Foreign Account Tax Compliance Act (FATCA) refers to the provisions included in the Hiring Incentives to Restore Employment Act signed into law on March 18, 2010 and effective January 1, 2014. It adds a new chapter to the Internal Revenue Code (Chapter 4) aimed at addressing perceived tax abuse by U.S. persons through the use of offshore accounts. The new rules require foreign financial institutions (FFI's) to provide the IRS with information on certain U.S. persons invested in accounts outside of the U.S. and for certain non-U.S. entities to provide information about any U.S.

owners. Payors/US withholding agents, such as Wedbush, are required to comply with these new withholding and reporting requirements. FATCA withholding begins for fixed or determinable annual or periodical (FDAP) payments made on or after January 1, 2015. FATCA withholding for FDAP and gross proceeds will begin January 1, 2017. Pass-through payments will become subject to FATCA withholding after January 1, 2017.

FATCA provisions apply to withholdable payments. Withholdable payments are defined as:

- Any payment of interest (including any portfolio interest and original issue discount), dividends, rents, royalties, salaries, wages, annuities, licensing fees and other FDAP income, gains and profits, if such payment is from sources within the U.S.
- Any gross proceeds from the sale or disposition of U.S. property of a type that can produce interest or dividends
- Interest paid by foreign branches of U.S. banks

Income effectively connected with U.S. business is generally exempt from withholding under FATCA.

Form 1042S has been redesigned by the IRS to include Chapter 4 and Chapter 3 (Non-Resident Alien "NRA") withholdings in order to fulfill these new reporting requirements. A foreign account can only be subject to one type of withholding. Chapter 4 subjects foreign and undocumented U.S. entity accounts to a withholding rate of 30%.

STATE REPORTING

Wedbush may be required to report payments of interest or interest-dividends on federally tax-exempt municipal bonds to state tax authorities, such as California FTB, for non-California municipal bonds.

WHAT DO YOU DO IF YOU HAVE FURTHER QUESTIONS?

Please consult your tax advisor for questions about how the new cost basis reporting requirements for "covered" securities affect your particular circumstance. Contact your Financial Advisor for any other questions.

THIS TAX REPORTING INFORMATION IS PROVIDED FOR GENERAL GUIDANCE. THE TAX INFORMATION CONTAINED HEREIN IS NOT INTENDED TO BE, NOR SHOULD IT BE CONSTRUED AS, THE BASIS OF TAX ADVICE. SINCE STATE AND FEDERAL TAX LAWS CAN BE VERY COMPLEX AND SUBJECT TO DIFFERENT INTERPRETATIONS, YOU MAY NEED TO CONSULT A TAX ADVISOR.