



July 2022

Cost Basis Disclosure Statement

Please ensure you read and understand this document prior to trading in your Schwab account.

This document covers the following topics:

- Defining Cost Basis
- Schwab's Cost Basis Accounting Method Defaults
- Cost Basis Accounting Methods Offered at Schwab
- Changing Your Cost Basis Accounting Method
- Revoking the Average Cost Basis Accounting Method
- Cost Basis Adjustments
- Contact Us

It is your responsibility to choose the cost basis accounting method appropriate for your tax situation. Failure to select the proper cost basis accounting method prior to trading securities may have tax implications for you. The information in this document is intended as informational only and is not individualized tax advice. Schwab does not provide tax advice. Schwab encourages you to consult your tax professional regarding cost basis decisions.

Defining Cost Basis

Since 2011, Charles Schwab & Co., Inc. (“Schwab”) has been required to report adjusted cost basis, including short-term/long-term gain/loss details, to you and the IRS on your Form 1099-B for “covered security” transactions in your taxable brokerage account(s). A “covered” security is defined by the type of security and whether you acquired it on or after the following effective dates:

- **January 1, 2011, for stocks and other equities**
- **January 1, 2012, for mutual funds, ETFs, and Dividend Reinvestment Plan (“DRIP”) shares**
- **January 1, 2014, for options and less complex fixed income securities (e.g., Treasury notes, fixed-rate bonds)**
- **January 1, 2016, for more complex fixed income securities (e.g., variable-rate bonds, inflation-indexed fixed income securities)**

Cost basis is generally based on the original purchase price you paid for a security, plus commissions and any fees. Adjusted cost basis includes any other adjustments to the price, including wash sales, corporate actions, return of capital, amortization, accretion, option adjustments and assignments, inheritance, gifts, and restricted stock awards. Your realized gain/loss on a security is determined by subtracting the adjusted cost basis from the sales proceeds less commissions and fees. Also, please keep in mind that if you move assets between your Schwab accounts, the cost basis information “travels” with the security(s).

When you sell a security or buy back a security to close a position (i.e., option or short sell), the cost basis method used to calculate your gain or loss **cannot** be changed after your trade settles. Therefore, it’s important to consider the tax implications at the time of trade. If Schwab does not receive specific instruction by the end of the settlement date, we will use the current cost basis method you have selected for your account, or the default cost basis method (as described below) if you have made no alternate selection, to calculate the gain/loss that is reported to you and the IRS at the end of the year.

For “covered” securities that were not both purchased and sold at Schwab, Schwab calculates cost basis using data that we obtained from third-party sources, such as your prior custodian. Therefore, the accuracy of the cost basis reporting Schwab performs is dependent on the data we receive from these third parties. If we are not provided with adequate information to report cost basis data for “covered” securities that were not both purchased and sold at Schwab, those securities will be considered “uncovered” and the cost basis will not be reported to the IRS, even if the securities sold were acquired after the effective date for cost basis reporting. In the event of a transfer of securities from Schwab, we are also required to report “covered” adjusted cost basis information to the receiving custodian.

Schwab will report cost basis on “uncovered” securities to you; however, Schwab will not report this information to the IRS. You will continue to be responsible for reporting all cost basis information for both “covered” and “uncovered” securities to the IRS on your tax returns.

Schwab’s Cost Basis Accounting Method Defaults

Schwab’s default cost basis accounting method for open-end mutual funds is the **Average Cost Method** with the **FIFO Lot Selection Method**. For equities, exchange-traded funds (ETFs), exchange-traded notes (ETNs), closed-end mutual funds, options, and fixed income, it is the **Identified Cost Method** with the **FIFO Lot Selection Method**. For Schwab Personalized Indexing™ strategies, Schwab will calculate your gains and losses using the **High Cost Lot (HCLOT) Method**. *Please see below for all cost basis definitions.*

Cost Basis Accounting Methods Offered at Schwab

There are two components included in both types of cost basis accounting methods at Schwab: 1) the **Cost Method** and 2) the **Lot Selection Method**. Both of these components play a role in how the cost basis accounting method is applied to your transactions.

- The **Cost Method** determines how to calculate the cost of securities sold to determine gains and losses. Depending on the asset type, you can choose either the **Average Cost Method** or the **Identified Cost Method**, defined below.
- The **Lot Selection Method** determines the order in which lots are selected at disposal (i.e., sold, transferred internally or externally, or otherwise closed [e.g., buying back a short position, closing an option position, etc.]). If you choose the **Average Cost Method**, the **Lot Selection Method** can only be **FIFO** per the IRS. If you choose the **Identified Cost Method**, you have many **Lot Selection Methods** from which to choose, depending on your tax strategy.

Average Cost Method	Identified Cost Method
<p>The Average Cost Method calculates the average price for shares bought and sold, regardless of how long they are held, and allocates the gains and losses evenly across all shares.</p> <p>Assets using the Average Cost Method will default to the Lot Selection Method of FIFO when disposed (i.e., sold, transferred internally or externally, or otherwise closed).</p> <p>Only these asset types: open-end mutual funds, closed-end mutual funds, ETFs, ETNs, and equities enrolled in dividend reinvestment (the Schwab No-Fee StockBuilder Plan®) are eligible for this cost method.</p>	<p>The Identified Cost Method reflects the actual cost basis for each individual lot bought or sold. When selecting this cost method, a Lot Selection Method (described below) must be selected. All security types are eligible for this cost method.</p> <ul style="list-style-type: none"> • The Lot Selection Method determines the order in which lots are selected at disposal (i.e., sold, transferred internally or externally, or otherwise closed). <ul style="list-style-type: none"> – First In, First Out (FIFO): The first lot acquired is the first lot selected. If lots are missing cost basis, these lots will be selected first. – Last In, First Out (LIFO): The last lot acquired is the first lot selected, regardless if lots are missing cost basis. – High Cost Lot (HCLLOT): For long positions, the lot with the highest cost is selected first; for short positions, the lot with the lowest cost is selected first. Lots with missing cost basis will be selected after lots with known cost basis are selected. – Low Cost Lot (LCLLOT): For long positions, the lot with the lowest cost is selected first; for short positions, the lot with the highest cost is selected first. If lots are missing cost basis, these will be selected first. – Tax Lot Optimizer™ (TLO): Lots are selected beginning with lots that generate the greatest short-term loss down to the least short-term loss; then lots that generate the greatest long-term loss down to the least long-term loss; then short-term lots that reflect no gain or loss; then long-term lots that reflect no gain or loss; then lots that generate the least long-term gain up to the greatest long-term gain; and finally lots that generate the least short-term gain up to the greatest short-term gain. Lots with missing

Average Cost Method (Continued)	Identified Cost Method (Continued)
	cost basis will be selected after lots with known cost basis. Note: If you move shares to another account, they will be processed using the High Cost Lot (HCLOT) Method .

In addition to Schwab's cost basis accounting methods, the IRS allows you to identify a specific lot to be sold when placing a trade, referred to as "Specific Share Identification," "Specified Lots," or "Versus Purchase (VSP)." Such identification must be made with the broker, or when placing a trade on Schwab.com (if this selection method is available) at the time of the trade, or no later than the end of settlement date.

Changing Your Cost Basis Accounting Method

To change your cost basis method on your brokerage account, log in to **Schwab.com**, then go to **Service > Account Settings**, or complete and return the **Change the Cost Basis Accounting Method on My Schwab Brokerage Account** form located at

Service > Account Servicing > Forms. You can also make a change by calling 1-800-435-4000. If your account is managed by an investment advisor, please contact your advisor to make a change or contact Schwab Alliance at 1-800-515-2157. The cost basis changes will apply from the date the method was changed on your account on a "go forward" manner. We will not retroactively apply these changes to your account. Accounts with Schwab Personalized Indexing strategies are not eligible for cost basis accounting method changes. Please speak to your investment advisor for more information.

Revoking the Average Cost Basis Accounting Method

You can "revoke" the use of the **Average Cost Method** for a "covered" security position by sending a written "revocation" notice to Schwab, if the following criteria are met:

(1) The original position was established* at Schwab less than one year ago **and**

(2) You have not sold, transferred (internally within Schwab or externally outside of Schwab), or disposed of any shares since the original position was established* at Schwab.

**“Established” means the original position was initially purchased at Schwab or transferred into Schwab from another financial institution.*

Examples:

- You applied the **Identified Cost Method** to mutual funds purchased at a previous financial institution and you transferred those mutual funds to Schwab. Schwab will apply the **Average Cost Method** (our default) to those mutual fund shares upon receipt of the transfer. You can “revoke” the defaulted **Average Cost Method** and restore each lot to its original cost basis (i.e., the **Identified Cost Method**) as long as you do so within one year of the transfer to Schwab, and before the first date of sale, transfer, or disposal, and your previous financial institution provided the original cost basis information to Schwab.
- You purchased a security in your account and it defaulted to the **Average Cost Method**. You later decide you want to “revoke” the **Average Cost Method** and apply the **Identified Cost Method**. You can do this if you elect to apply the **Identified Cost Method** to that position within one year of purchase, and you have not sold, transferred, or disposed of any shares of the security position.

Reminder: The revocation applies to the entire security position in the account, and the basis of each lot will be restored to the cost basis prior to when the **Average Cost Method** was applied.

Written Revocation Notice: Please ensure you include the word “revoke,” as well as the specific security, in your written notice. Please upload your written request using Secure Messaging on Schwab.com, or you may fax the request to 1-888-526-7252 or mail to Charles Schwab & Co., Inc., ATTN: Document Control, P.O. Box 982600, El Paso, TX 79998-2600. If your account is managed by an investment advisor, please contact your advisor or contact Schwab Alliance at 1-800-515-2157.

Cost Basis Adjustments

Cost basis is generally based on your original purchase price of the security plus commissions and any fees; however, the original cost basis may be subject to the following adjustments that increase or decrease your basis. Schwab will adjust the cost basis of securities in your brokerage account in the following circumstances:

Wash Sales: If you sell shares at a loss and buy additional shares or acquire more shares (e.g., due to a corporate action, dividend reinvestment, etc.) in the same security 30 days before or after that date (61-day range), you may not claim the loss on your tax return until you sell the new shares. If a wash sale occurs, the loss is disallowed for federal income tax purposes but may be added to the cost basis of the purchased shares. Schwab will adjust the cost basis and holding period of shares when a wash sale occurs within an account as a result of a purchase of an identical security with the same CUSIP. Accounts with the **HCLOT Method** may incur more wash sales. It's important to note that the wash sale reporting requirements for you as a taxpayer are different and broader than the reporting requirements for Schwab. For more details on your wash sale reporting requirements, please see IRS Publication 550 or consult your tax professional.

Corporate Actions: In some instances, corporate actions can affect the cost basis of your securities. Regulations require issuers to provide statements describing the effects of a corporate action on the cost basis of a security. Schwab will adjust cost basis for corporate actions based on the information provided in the issuer statement.

Return of Capital Payments: Cost basis will be reduced for any return of capital (principal) distributions.

Amortization and Accretion of fixed income products depending on whether you purchased the security at a premium or discount.

Option Adjustments: Schwab will adjust the cost basis or realized gain/loss (proceeds) of the underlying security for option assignments and

exercises (by factoring in the premium paid or received).

Inheritance: Schwab will adjust the cost basis of securities that have been inherited based on the fair market value on the date of death, unless alternate instructions are received from an authorized representative of the estate.

Gifts: Shares will be gifted based on your default cost basis method unless otherwise specified with a given purchase date and cost prior to the gift transfer. Schwab will track the fair market value and gift date in addition to the donor's adjusted cost basis and will apply IRS gift rules at the time of sale to determine gain or loss. You will still be required to track and make adjustments to your securities, as it is possible that you could have other situations that require cost basis adjustments that Schwab is not required to report.

Restricted Stock Awards: If you filed an election pursuant to IRC Section 83(b) on a Restricted Stock Award issued by your employer, a different cost basis may apply to shares vested from that award than the cost basis reported on this statement. Please consult your tax professional to understand the tax implications.

Contact Us

If you have any questions regarding the information in this document, please contact us at 1-800-435-4000. If your account is managed by an investment advisor, please contact your advisor or contact Schwab Alliance at 1-800-515-2157.



Independent investment advisors are not owned by, affiliated with, or supervised by Charles Schwab & Co., Inc. ("Schwab"). Certain investment advisors, such as Charles Schwab Investment Management, Inc. ("CSIM"), Charles Schwab Investment Advisory, Inc. ("CSIA"), and Schwab Wealth Advisory, Inc., are affiliated with Schwab.

©2022 Charles Schwab & Co., Inc.

All rights reserved. Member SIPC.

E-0622-5864105247873433844 REG64555-06

(06/22)