New IRS Cost Basis Reporting Requirements

Effective January 1, 2012, mutual funds will be required to report the Adjusted Cost Basis for shares (sold or exchanged) on IRS Form 1099-B, in addition to the gross proceeds currently reported. The Adjusted Cost Basis requirement will apply only to shares purchased on or after January 1, 2012, referred to as “covered” shares.

The new regulations also require that mutual funds offer shareholders multiple cost basis accounting methods to calculate gains or losses on the sale or exchange of their covered shares. Additionally, mutual fund companies are required to select a default cost basis accounting method for covered shares. AllianceBernstein has chosen Average Cost as its default cost basis accounting method. **If you would like to use Average Cost for your covered shares, you do not need to do anything.** Average Cost will automatically be applied to your accounts.

Note: in addition to existing accounts, the default accounting method will be applied to all new accounts unless otherwise requested.

**What is “Adjusted Cost Basis”?**

Adjusted Cost Basis is the original value (typically the purchase price) of the mutual fund shares in an account adjusted for dividends, return of capital, and other corporate actions. We use this value to determine whether a sale of the shares results in a gain or loss. The reported gain or loss is the difference between the Adjusted Cost Basis and the sale price of the shares sold.

**What are “covered” shares?**

Covered shares are simply shares in mutual funds acquired on or after the effective date (January 1, 2012). We are not required to report cost basis information for shares acquired before the effective date (non-covered shares). Cost basis information for shares acquired on or after the effective date (covered shares) must be reported.

Note: Transactions involving non-covered shares will continue to be reported to the IRS as they have in the past; only gross proceeds (no detailed cost basis) will be reported on the sales of these non-covered shares. If available, AllianceBernstein will continue to provide Average Cost basis information to shareholders for non-covered shares. It will continue to be the shareholder’s responsibility to report any necessary cost basis information on non-covered shares to the IRS. For sales or exchanges that take place on or after January 1, 2012, non-covered shares will be depleted from your account before covered shares, unless you elect the Specific Lot Identification cost basis accounting method.

**What accounts are impacted?**

- The new cost basis reporting rules **only** apply to 1099-B eligible accounts (typically, taxable accounts) with covered shares. If you do not have 1099-B eligible accounts, **no response to this letter is necessary.**
- The following types of accounts are **not** affected by the new regulations, as a 1099-B is not reported for these types of accounts:
  - CollegeBoundfund (529)
  - Money Market fund
  - Tax Deferred/Retirement

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More on Average Cost

What is Average Cost?
A method for valuing the cost of covered shares in an account by averaging the effect of all covered transactions in the account. The gain/loss is calculated by taking the cumulative dollar cost of the covered shares owned and dividing it by the number of covered shares in the account. Non-covered securities are calculated separately from covered securities and are not reported to the IRS.

Why did AllianceBernstein choose this method?
Continuity: AllianceBernstein has been voluntarily reporting Average Cost on applicable shareholder accounts for approximately 20 years. We believe continuing to provide this calculation methodology will provide an uninterrupted service experience to our fund shareholders.

Consistency: Based on information gathered from our peers, prior to the new regulation, the vast majority of shareholders, when given the option of choosing a cost basis accounting method, chose Average Cost. Additionally, a recent industry survey revealed that the majority of the industry plans on using Average Cost as their default accounting method.

Other Available Cost Basis Accounting Methods

First In First Out (FIFO)—A standing-order accounting method that assumes shares acquired first in the shareholder’s account are the first shares depleted to determine the shareholder’s cost basis, gain or loss, and holding period.

Specific Identification Methods—A cost basis accounting method that requires tracking the shares associated with a purchase lot or reinvestment lot until the shares are redeemed. A shareholder chooses one of the following priority sequence options to determine which share lots are used for a sale or exchange:
- Last In First Out (LIFO)—A standing order to sell the newest shares in an account first.
- High Cost First Out (HIFO)—A standing order to sell the most expensive shares in the account first.
- Low Cost First Out (LOFO)—A standing order to sell the least expensive shares in the account first.
- Loss/Gain Utilization (LGUT)—Based on loss/gain evaluation, lots are strategically selected in conjunction with a holding period.
- Specific Lot Identification (SLID)—The shareholder designates specific shares for redemption.

Choosing a Cost Basis Accounting Method Other Than Average Cost
If you have an account that is impacted, but you are unsure which method to choose, or do not wish to be defaulted to the Average Cost basis method, we strongly suggest you consult with a qualified tax advisor to determine which method is most appropriate for your specific tax situation. AllianceBernstein is not able to provide tax advice or assist you in selecting a method. If you decide to elect a cost basis method other than Average Cost, complete the enclosed Cost Basis Accounting Method Election Form and return it to us before January 1, 2012.

For More Information
For additional information regarding the new cost basis regulations, the IRS has provided Publication 550, Investment Income and Expenses, available on www.irs.gov or by calling the IRS at 1-800-829-3676.

If you have any questions, please contact our Client Services Department at 1-800-221-5672. Our business hours are Monday through Friday, from 8:30 a.m. to 7:00 p.m. Eastern Time.

AllianceBernstein Investor Services, Inc.