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Using the Merger/Exchange Wizard in Morningstar Office

Morningstar Office stores information for many spinoffs and mergers in the Corporate Action Warehouse, which is accessed via either the Import window or blotter. This information can be used to create the necessary transactions to help adjust the cost basis and value for securities involved in these events.

Once you open the Corporate Action Warehouse window, you can select whether to use the Spinoff, Merger, or Split wizard. This document explains how to handle mergers for the securities your clients hold in their accounts.

 Note: The images used in this document should be considered only as examples. Morningstar does not guarantee the accuracy or completeness of these examples. This document and the information provided within it is not intended to provide tax or legal advice about the transactions described. Users are urged to consult their tax advisors and legal counsel about the tax consequences of all transactions.

No, The wizard can be used only for Stocks, ETF's, Open End or Closed End Funds, and User-Defined Equity or Managed Accounts.

Yes, in fact you will want to do this if you want to transfer the cost basis without having to handle the cost basis adjustments manually. See "What if I use the Merger Wizard for Share Class Exchanges, but it does not generate accurate transactions for all accounts, and I am left with out-of-balance transactions for the new security?" on page 12 for more information.

Overview

Can I use the Merger Wizard for all security types?

Can I use the Merger Wizard for share class exchanges?

Using the Merger/Exchange Wizard

If the merger transactions have been imported into Morningstar Office from your custodian, but have not been posted to the account, remove them from the Transaction blotter. In most cases, the corporate action transactions are flagged and located at the top of the blotter.

If transactions from your custodian related to the merger have already been posted in Morningstar Office, you must delete them from the Transactions page for the account(s) in question. From the menu bar at the top of the window, select **Tools...Find...Find Transactions**. If you have never used the Find Transactions tool before, please contact Support before proceeding.

In this section, you will learn about the following topics:

- ▶ how the Merger/Exchange Wizard determines the value and cost basis for a new security
- ▶ how to handle Cash-in-Lieu transactions in the Import blotter
- ▶ what to do if the Cash-in-Lieu transactions/amounts have not yet occurred at your custodian
- ▶ how to use the Merger/Exchange Wizard
- ▶ how to handle the cash transaction for fractional shares if you enter 0 in the Cash-in-Lieu field
- ▶ how to handle the cash transaction for fractional shares if you enter a real price in the Cash-in-Lieu field

Overview


What do I do if I've already posted these transactions to my practice?

When you use the Corporate Action Wizard to handle a merger, the original security will have a Debit of Security transaction associated with it, while the new security will have a Credit of Security transaction associated with it. These transactions also adjust the cost basis of the new security. If the original security had multiple lots, one Debit of Security transaction is used to remove the shares of the original holding, while multiple Credit of Security transactions are used, one for each lot held in the original security.


How does the Merger/Exchange Wizard determine the value and cost basis of the new security?

The Debit of Security transaction for the original security records the following data:

- ▶ the net amount and gross amount of the security's value
- ▶ the number of shares from the original holding, and
- ▶ the price per share of the original security, based on the date before the merger.

 Note: The price per share for the original security is pulled from the Definition Master in Morningstar Office. If you have not made changes for this security, it will use the closing market price on the last market day before the merger.

The Corporate Action wizard calculates the new price and per-share cost basis for the new security, based on the factors in the following table:

Factor	Formula	Sample Value
Number of shares of the original security	n/a (value comes from the custodian)	52
Share exchange ratio  Note: This value is used to determine the number of shares of the new security an account receives as part of a merger event.	$A = B \times C$ Where: A = Share exchange ratio B = Number of shares of the original security C = Share distribution ratio The share distribution ratio, in turn, is calculated as: $C = \frac{D}{E}$ Where: C = Share distribution ratio D = Number of shares of the new security E = Number of shares of the original security When calculating the share exchange ratio, use all of the trailing decimal places calculated for the share distribution ratio.	0.93
Number of shares of the new security	$D = B \times A$ Where: D = Number of shares of the new security B = Number of shares of the original security A = Share exchange ratio	48.36
Per-share value of the new security	n/a (value comes from the custodian)	\$39.81
Value of the new security	$F = D \times G$ Where F = Value of the new security D = Number of shares of the new security G = Per-share value of new security	\$1,925.2116

If the corporate action results in fractional shares being sold, they will appear on the Cash-in-Lieu blotter, which can be accessed from left-hand side of the Import window. Open the Cash-in-Lieu blotter to review the transactions for accuracy and possible updates before they are posted. If no changes need to be made, click the **Post** icon.

Cash in Lieu								
<input type="checkbox"/> Post <input checked="" type="checkbox"/> Delete <input type="checkbox"/> Save <input type="checkbox"/> Export <input type="checkbox"/> Print <input type="checkbox"/> Update Transaction								
	Holding Name	Ticker	Transaction Date	Transaction Type	Net Amount	Gross Amount	Number of Shares	Price
<input type="checkbox"/> 1	Exelon Corp	EXC	3 /12/2012	Sell	14.33000	14.33000	0.36000	39.80556
<input type="checkbox"/> 2	Sweep Account		3 /12/2012	Deposit	14.33000	14.33000	14.33000	1.00000

Note the fractional share for the new security; this is multiplied by the Price, to determine the Gross Amount and Net Amount, which will be posted to the client's Cash account


When the Merger Wizard is used for a stock, it's possible fractional shares of the new company will be generated. Since it's not possible to own a fraction of a share of stock, cash is usually received in lieu of these fractional holdings. You need to carefully examine these Cash-in-Lieu transactions, to ensure the values being posted to a client's account are accurate.

Cash-in-Lieu (of fractional shares) transactions are normally imported as Distributions or Deposits into Cash. The Cash-in-Lieu price is usually not provided by the companies being merged. This is because this price is generated by the custodian, and is dependent on when the Cash-in-Lieu transactions are processed. Different Cash-in-Lieu prices often exist for different custodians. Sometimes you will even see different prices used within a custodian, if transactions are processed at different times.

In the Import blotter, Cash-in-Lieu transactions appear separate from merger transactions. These items should also be deleted prior to running the Merger Wizard since the Merger Wizard will account for them.

The easiest way to locate and delete these transactions on the Transactions blotter is to do the following:

1. Sort the Transactions blotter grid view by either the **Ticker** or **Security ID** column.
2. Scroll to locate the **transactions** for the new holding.
3. Review the **Comments** column for notations referencing **Cash in Lieu** or **Fractional Shares**.
4. **Select** these records, export them to Excel for future reference, and then **delete** them from the Transactions blotter.

 Note: The offsetting Cash transaction for the distribution is automatically deleted when the distribution is deleted, so it is not necessary to export or delete the cash transactions. If only Cash deposits were sent as the transactions, then they will also need to be deleted.

How do I handle Cash-in-Lieu transactions in the Import blotter?

If no fractional shares seemed to result from the merger at your custodian, it could be that no Cash-in-Lieu transactions occurred as part of the merger. However, if fractional shares did result from the merger, but the custodian is not listing a Cash-in-Lieu transaction, it could be that the transactions have simply not yet occurred. These transactions can appear a few days after the initial merger transactions.

While working through the Merger wizard, you can enter **0** in the Cash-in-Lieu price field and add the price (or amount) later to the generated transactions. You can still post the Debit of Security and Credit of Security transactions associated with the merger, even though you may have transactions in your Cash-in-Lieu blotter which are not ready to be posted.

So long as the Cash-in Lieu transactions have a red triangle in the Status column, they will not post. When you post the other data, these transactions will remain in the blotter until the price or amount is entered prior to posting. You can import future dates, or import another custodian's data without losing these transactions. Once you have an amount for these transactions, click in the **Net Amount** field to update the transaction, then **post** these transactions to your practice.

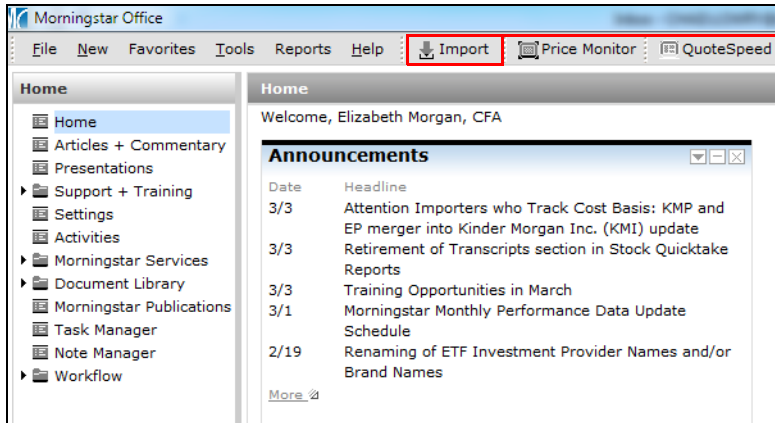
If the Cash-in-lieu transactions were already imported, and you exported and deleted, you can reference the amounts from the spreadsheet.

What if the Cash-in-Lieu transactions or amounts have not yet occurred at the custodian?

To facilitate the process of reconciling and posting merger transactions, Morningstar recommends using the Corporate Action Wizard from the Corporate Actions Warehouse window from within your normal custodian Import screen; this will allow you to reconcile the data. The wizard can be used during your normal import process.

How do I use the Merger/Exchange Wizard?

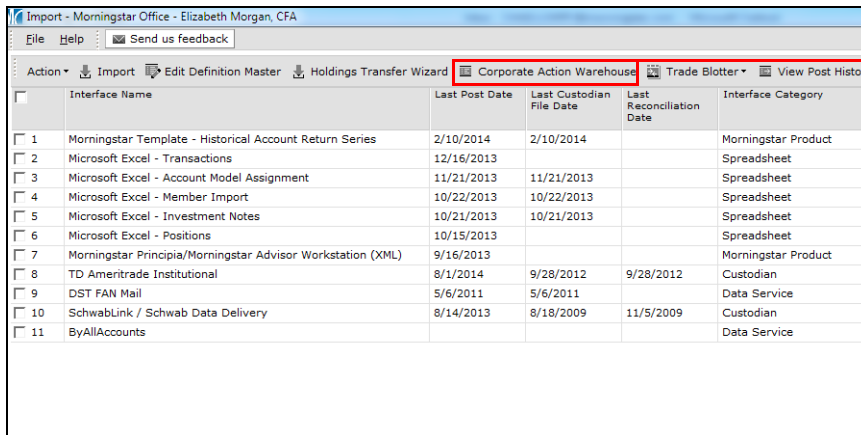
1. At the top of the Morningstar Office window, click the **Import** icon. The Import window opens.



To open the Import window, click this icon

2. At the top of the Import window, click the **Corporate Actions Warehouse** icon.

Note: You can also access the Corporate Action Warehouse from the grid-view tool bar within any Import blotter.



To open the Corporate Action Warehouse, click this icon

3. When the Corporate Action Warehouse window opens, click **Corp Action in My Practice** in the left-hand navigation pane to display corporate actions that are known to Morningstar.
4. Check the **box** next to the original security whose corporate action you want to reconcile with your clients' holdings.
5. From the top menu, click the **Corporate Action Wizard** icon. The Merger/Exchange Wizard opens, displaying information for the original security. Morningstar pre-populates these fields based on the information in its database.

Be sure you are on this page

To open the Corporate Action Wizard, click this icon

Remember to check the box next to the security for which you want to use the wizard

Action	Find Corporate Action	Corporate Action Wizard	Issuer Name	Security Name	Symbol
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Forest Laboratories Inc	Forest Laboratori	FRX
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Vodafone Group PLC	Vodafone Group	VOD
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	International Business Machines C	International Bus	IBM
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	PPG Industries Inc	PPG Industries Ir	PPG
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Expedia Inc	Expedia Inc	EXPE
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	PetSmart Inc	PetSmart Inc	PETM
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	PetSmart Inc	PetSmart Inc	PETM
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Forest Laboratories Inc	Forest Laboratori	FRX
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	International Business Machines C	International Bus	IBM

6. Any field in blue text requires entry and must be completed before the system will allow you to advance. If data is missing from the wizard and you are unsure what to enter, review the FAQ titled "What if information is missing from the Merger/Exchange Wizard?" on page 8. When all the fields are populated, click **Next** to move to the New Security step.

If the two required fields do not pre-populate, enter them manually

Enter the information for the original security

Security Name: Constellation Energy Group Inc

Symbol/CUSIP: CEG

Effective Date: 03/12/2012

Merger Type: Security only Cash only Security and Cash

Next Cancel Help

7. Once again, all data entry fields in blue text on the New security step are required. Note the following important points about using the fields on this step:
- ▶ If you have the Cash-in-Lieu price, enter it in the Cash in Lieu Price field. See the section on page 10 for more information on dealing with these transactions.
 - ▶ If you do not have the Cash-in-Lieu price, Morningstar recommends entering **0** in the Cash in Lieu Price field, then correcting the generated transactions through the Cash-in-Lieu blotter. See the section on page 10 for more information on dealing with these transactions
 - ▶ To keep the fractional shares that are part of the merger event, select the **No** option button for the Are you receiving cash in lieu of fractional shares? field, then select **Fractions** from the options that appear. Alternatively, if the fractional shares were either dropped or rounded, select **Dropped** or **Rounded**. In this case, a Credit of Security or Debit of Security transaction will be created in the Cash-in-Lieu blotter.

Merger/Exchange Wizard - New security

Enter the information for the new security

New Security Name: Exelon Corp

Symbol/CUSIP: EXC

New Price per share: 39.81

Share Exchange Ratio: 0.93

Are you receiving cash in lieu of fractional shares? Yes No

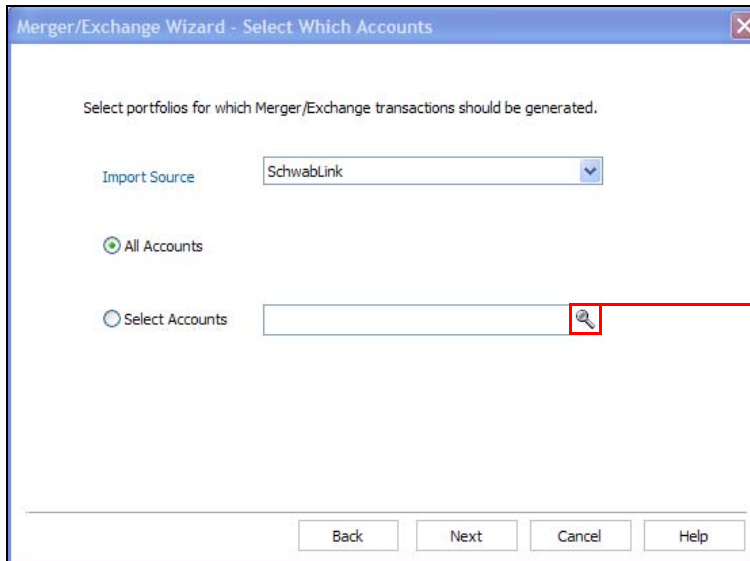
Cash in Lieu Price: 0

Buttons: Back, Next, Cancel, Help

If you do not have the Cash-in-Lieu price, enter **0**

8. Click **Next** to continue to the Select Which Accounts step.

- On the Select Which Accounts step, you need to select the **Import Source** and determine whether the corporate action will be applied to **All Accounts** or **Select Accounts**. All Accounts is the default and is normally the option selected, unless you want to run the Corporate Action for only specific accounts.



Click here to manually select specific accounts

- Click **Next** to generate the transactions. You are brought to the Corporate Actions Blotter. If everything appears correct, you can review the transactions, reconcile and post them to your practice.

Note: If the accounts were imported from Microsoft Excel, they cannot be reconciled; you will simply **post** the transactions to your accounts.

	Holding Name	Ticker	Transaction Date	Transaction Type	Net Amount	Gross Amount	Number of Shares	Price	Per Share Cost Basis	Original Transaction Date
<input type="checkbox"/>	1	Constellation Energy Group Inc	CEG	3 /12/2012	Debit of Security	1,935.9600	1,935.9600	52.00000	37.23000	
<input type="checkbox"/>	2	Exelon Corp	EXC	3 /12/2012	Credit of Security	1,925.2116	1,925.2116	48.36000	39.81000	93.23656 3 /18/2008

Note the two transactions for the merger event

If you entered a standard price for Cash in Lieu as you completed the wizard, you need to manually check each transaction that appears on the Cash-in-Lieu blotter to make sure there are no extended values beyond two decimal places. For example, when looking at the Net Amount, it may appear to be 18.76 but if you actually click in the cell, it may actually be 18.756. If more than two digits appear after the decimal point, Morningstar recommends updating the value in the Net Amount and Gross Amount columns, and the Price column value be cleared. When you click **Save**, the price will recalculate.

Once you have verified and/or updated the transactions in the Cash-in-Lieu blotter, you need to reconcile. Reconciling allows you to verify that the Corporate Action was done correctly. To reconcile a Cash out-of-balance transaction, please click [here](#).

If you entered 0 for the Cash-in-Lieu price, the transactions appear on the Cash-in-Lieu blotter with a red warning. At this point, you can refer to the Cash-in-Lieu transactions you exported to Excel prior to deleting them, and copy the Net Amount from here.

Morningstar recommends updating the Net Amount column instead of the Price column. Why? If the price is added and the calculated Net Amount value (Number of Shares x Price) results in a value with more than two digits after the decimal point (e.g., 18.756 instead of 18.76), this could result in incorrect values appearing in the cash account.

After entering the **Net Amount** in both the Sell and Deposit rows on the Cash-in-Lieu blotter, click **Save** to have the system complete the transaction. Once complete, if everything appears to be correct, you can reconcile and post.

If I entered a real price in the Cash-in-Lieu field, how do I handle the cash transaction for fractional shares?

If I entered 0 in the Cash-in-Lieu field, how do I handle the cash transaction for fractional shares?

FAQs for Merger/Exchange Transactions

This section lists some of the most frequently asked questions about merger transactions, and provides an answer for these questions.

You cannot use the Merger/Exchange wizard for manually created transactional accounts. However, you can use it for accounts imported through the Microsoft Excel - transactions interface. A disadvantage is that you will not be able to reconcile these accounts as you can in the Import Blotter. For accounts imported through the Microsoft Excel - transactions interface, follow the steps beginning on page 6.

If you do not see the merger you are looking for on the Corp Action in My Practice page within the Corporate Action Warehouse, you can still use the Corporate Action Wizard by populating the information manually. Simply click the **Corporate Action Wizard** icon to launch the tool.

Morningstar populates the fields in the Merger/Exchange Wizard based on the information in its database; sometimes a delay could exist between the time a merger/exchange takes place, and when it is available in the Corporate Action Warehouse. If the merger/exchange data is not present in Morningstar Office when you go to import client data, you can search for the information on the Internet (or from your custodian) and populate the fields in the Merger/Exchange Wizard yourself, or you can wait for the information to become available within Morningstar Office.

The following table offers a few helpful websites to search for information on corporate actions:

Resource	Link
Chicago Board Options Exchange	http://www.cboe.com/tradtool/contracts.aspx
Schwab Performance Technologies	https://schwabpt.com/resources/actions/
Cost Basis Tools	http://www.costbasistools.com/spinoff/calculator.php

Morningstar uses the date the merger took place as the Effective Date for the Corporate Action. All generated transactions are given this date. Sometimes you will see a different date listed at the custodian for these transactions due to processing differences. This field is editable if you want to change it from the Merger Wizard.

Overview

Can I use the Corporate Action Wizard to enter mergers/exchange transactions for manually entered transactional accounts?

What if the merger I'm looking for isn't listed on the Corp Action in My Practice page?

What if a merger is missing from the Merger/Exchange Wizard?

What if Morningstar lists a different Effective Date than my custodian?

If this happens, it usually means the Cash-in-Lieu distribution was accounted for twice. That is, you generated a Sell transaction for the fractional share using the Merger Wizard, but the custodian also sent down a Cash-in-Lieu transaction which you imported. (The custodian usually sends this as a Distribution transaction for the new security, or as a Deposit into Cash.)

If you have not posted this latter transaction from the custodian, do the following:

1. Go to the **Transactions** blotter.
2. Look for the transaction sent from the custodian. You can sort by the Account Number column by **double-clicking** on that column header, or you can search by account number using the **Search for** functionality at the top-left corner of the screen.
3. **Delete** the Cash-in-Lieu transaction. If it came down as a Distribution, just delete the row. (Morningstar will automatically delete the offsetting Cash transaction.) If it came in as a Deposit into Cash transaction, verify that the transaction is not linked to any other transaction by ensuring the Offset Security cell is blank, and then delete.

 Note: Be sure not to delete any Money Market transactions.

Share Class Exchanges that are not forced due to a corporate action are usually done with different share exchange ratios for each account. If one share exchange ratio is not working for all accounts, then the Merger Wizard would need to be run on each account individually (see step 9 on page 9), with each account's unique share exchange ratio.

The share exchange ratio can be determined by taking the number of shares in the new holding, and dividing by the old number of shares for the original holding. You need to use all of the trailing decimal places calculated for this value.

What if the Cash out-of-balance value is greater than the Cash-in-Lieu amount?

What if I use the Merger Wizard for Share Class Exchanges, but it does not generate accurate transactions for all accounts, and I am left with out-of-balance transactions for the new security?

If no transactions are generated after you use the Merger wizard, do the following:

1. Be sure the transactions related to the merger have been deleted out of the Transactions blotter. If they are not deleted, the Merger Wizard will not create merger transactions.
2. Go into the client's account (in the main Morningstar Office window) where the position exists, to verify that shares of the original holding are currently in the account. If the Cash-in-lieu transactions were already imported, and you exported and deleted them, you can reference the amounts from the spreadsheet.
3. Verify whether the holding is a Morningstar security or a user-defined security. From the **Holdings Summary** page of the Account window, **right-click** on the security. If **Edit Security** is an available option, then it is a user-defined security. If it is a user-defined security, be sure you are searching under the User Defined Equity or User Defined Managed Account Universes when searching for the security from within the Merger Wizard.

What if the Merger wizard generates no transactions?

Select the 'Cash only' option on the original security page. You will then be prompted for a Cash Price Per Share. It will sell the shares of the original security.

What if I only received Cash as part of the Corporate Action?

The following table explains how to understand what happens when you receive both securities and cash as part of a merger event:

If I received both securities and cash as part of a merger, what do all the fields mean?

Field	Description
New Price per Share	The price of the new share on the effective date.
Stock/Cash Proration Factor (Yes/No)	Select Yes, if a certain percentage of the stock is eligible for stock or cash.
Share Ratio Eligible for Stock	The ratio eligible for stock.
Share Ratio Eligible for Cash	The ratio eligible for cash.
Cash Consideration (Capital Gain v. Distribution)	Capital Gain selection - A Debit of Security transaction will be created for all of the shares of the original holding followed by a Credit of Security transaction with the new Cost Basis. There will then be a Sell of the shares of the original holding.
	Distribution selection - Creates a Distribution for the original holding followed by a Debit of Security for the shares of the original holding.
Share Exchange Ratio	The number of shares of the new holding that will be exchanged for each share of the original security.
Cash Price Per Share	The amount of cash received for each share of the original security. This will be the price used when generating the Sell (for Capital Gain Cash Considerations) or Distribution (for Distribution Cash Considerations).

Field	Description
Are you receiving Cash in lieu of fractional Shares (Yes/No)	Yes if the fractional shares are paid by cash; No, if they are dropped or rounded.
Fractional Shares (Dropped or Rounded)	If you select Dropped, a Debit of Security will be created for the fractional share. If you select Rounded, then it will create a Debit of Security or Credit of Security in order to round to the nearest whole share.
Cash-in-Lieu price	The price used for the fractional shares of the new security.