

Using the Spinoff Wizard in Morningstar Office

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Using the Spinoff Wizard in Morningstar Office

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

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 spinoffs for 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.

Since your custodian may already generate transactions for spinoffs, a logical question is: Why should I bother using the Spinoff Wizard for something that already exists? The Spinoff Wizard is recommended for three reasons:

- The transactions from your custodian will not adjust the cost basis for the original security, but the Spinoff Wizard will.
- You can control the Cash in Lieu amount recorded for each transaction, and ensure your clients' Cash account is updated correctly.
- For a transactional account you imported via the Microsoft Excel - Transactions interface, the Spinoff Wizard will help keep these accounts updated.

Overview

Why should I use the Spinoff Wizard?

To the extent the data is available, the Spinoff Wizard will be pre-populated with several key data points. The table below describes the data the Spinoff Wizard is pre-populated with:

What data is provided in the Spinoff Wizard?

Item	Description
Security Name	The name of the original security and the new security (or securities, depending on how many entities are being spun off of the original)
Symbol/CUSIP	The ticker symbol or CUSIP of both the original and new security
# of New Securities	Seen on the Original Security page of the wizard, this number indicates how many new securities are being spun off of the original security
Effective Date	The effective date of the spin off; this date can be edited
Per Fair Market Value	This is the new, adjusted price for the original security
New Cost Allocation (%)	This is seen for both the original and new securities; it represents how much of the original security's value is either being retained by the original security, or allocated to the new security
Share Distribution Ratio	This is seen only on the new security page in the wizard; this determines the number of shares of the new security the client receives via the spinoff The original number of shares is multiplied by the share distribution ratio to determine the number of shares for the new holding

☞ Note: One item not shown in the Spinoff Wizard is the price of the new security. This is shown in the Corporate Action blotter once you complete the wizard. The calculation for this value is explained below.

The Spinoff Wizard performs the following calculations:

- the new value of the original security after the spinoff
- the updated cost basis of the original security
- number of shares of the new security (or securities) an account should receive as a result of the spinoff, and
- the value of the new security (or securities).

How does the Spinoff Wizard calculate values for the original and new securities in a spinoff?

The table below explains how each of these items is calculated:

Item	Calculation
New value of the original security	$\$Value\ of\ Original\ Security \times New\ Cost\ Allocation\%^* = \$New\ Value\ of\ Original\ Security$ $\$New\ Value\ of\ Original\ Security / Number\ of\ Original\ Shares = \$New\ Price\ for\ Original\ Security$
Updated cost basis for the original security	$Number\ of\ Original\ Shares \times \$Original\ Per\ Share\ Cost\ Basis = \$Total\ Original\ Cost\ Basis$ $\$Total\ Original\ Cost\ Basis \times New\ Cost\ Allocation\%^* = \$Total\ Updated\ Cost\ Basis$ $\$Total\ Updated\ Cost\ Basis / Original\ Shares = \$Updated\ Per\ Share\ Cost\ Basis\ for\ Original\ Security$
Number of shares of the new security	$Number\ of\ Original\ Shares \times Share\ Distribution\ Ratio = Number\ of\ New\ Security\ Shares$
Per share price of the new security	$\$Value\ of\ Original\ Security \times New\ Cost\ Allocation\%^{**} = \$Value\ of\ New\ Security$ $\$Value\ of\ New\ Security / Number\ of\ New\ Security\ Shares = \$Price\ of\ New\ Security$

 * = New Cost Allocation% for Original Security

** = New Cost Allocation% for New Security

Using the Corporate Action Spinoff Wizard

When importing, corporate action transactions (such as spinoffs) are often flagged and located at the top of the Transactions blotter. You won't need to use these transactions, since they will be re-created and accounted for by the Spinoff Wizard. Before you use the Spinoff Wizard, you should export transactions pertaining to a spinoff to an Excel spreadsheet for reference later, and then delete those transactions.

Overview

- ☞ If you already posted the spinoff transactions to your clients' accounts, export them to an Excel spreadsheet from the client's account(s), and then delete them from the client accounts.

Because spinoffs often result in fractional shares of the new security, it is also important to understand how cash-in-lieu (of fractional shares) transactions are handled via the wizard.

In this section, you will learn about the following:

- how to handle Cash in Lieu transactions
- how to find the Cash in Lieu price or amount, and
- how to use the Spinoff Wizard.

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 company generating a spinoff. 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.

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

In the Import blotter, cash-in-lieu transactions appear separate from spinoff transactions. These items should also be deleted, since the Spinoff Wizard will account for them.

The easiest way to locate and delete these transactions 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**.
4. **Select** and **delete** these records from the blotter.

- ☞ 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, they will also need to be deleted.

If no fractional shares resulted from the spinoff, it could be that no Cash-in-Lieu transactions occurred. If fractional shares did result from the spinoff, but the custodian is not listing a Cash-in-Lieu transaction, it could be that the transactions have just not yet occurred. These transactions can appear a few days after the initial spinoff transactions.

While working through the 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 data even though you may have transactions in your Cash in Lieu blotter which are not ready to be posted.

As long as the Cash-in Lieu transactions have a red triangle in the Status column, they will not post. When you post your data, these transactions will remain in your 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, you can click in the Net Amount field to update the transaction.

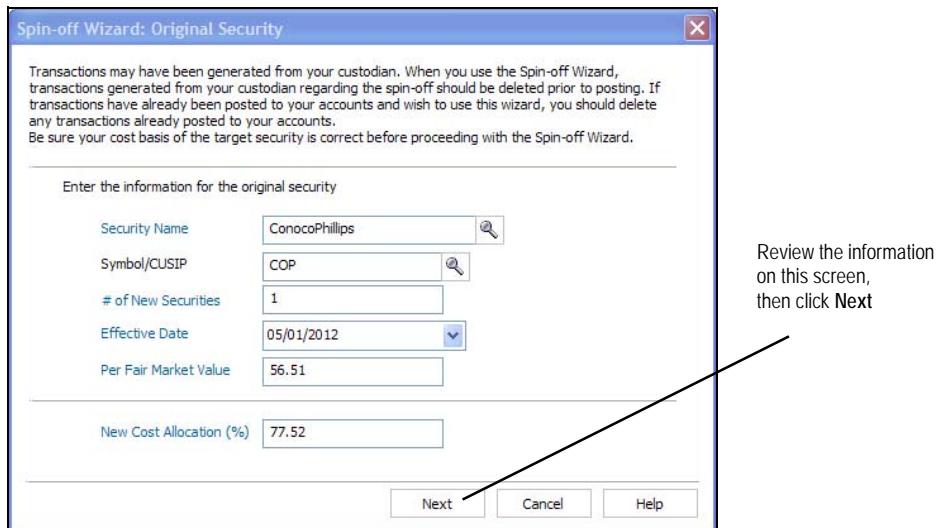
**What if the
Cash-in-Lieu
transactions/
amounts have not
occurred yet at
the Custodian?**

To facilitate the process of reconciling and posting spinoff 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 Spinoff Wizard?

Do the following:

1. At the top of the Morningstar Office window, click the **Import** icon. The Import window opens.
2. At the top of the Import window, click the **Corporate Action Warehouse** 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.
 - ☞ If the corporate action is not listed there, under the Spinoff section, click the **folder** corresponding with the year the corporate action occurred. If you still cannot find the security, proceed to step 5; you can always manually enter the data in the Spinoff Wizard.
4. Check the **box** next to the original security whose spinoff you want to reconcile with your clients' holdings.
5. From the top menu, click **Corporate Action Wizard**. The Spinoff Wizard opens, displaying information for the original security. Morningstar pre-populates these fields based on the information in its database.
 - ☞ Note: Any field in blue text requires entry and must be completed before the system allows you to advance. If data is missing from the wizard and you are unsure what to enter, review the FAQ titled **What if the Cost Allocation or other information is missing from the wizard?** on page 11.



6. When all the fields are populated, click **Next**.

7. This screen contains information for the new security. Once again, all data entry fields in blue text are required. If you do not have the Cash in Lieu price, Morningstar recommends entering **0**, and then correcting the generated transactions through the Cash in Lieu blotter.

Spin-off Wizard: New Security 1

Enter the information for the new security		Be sure to take note of the values in these fields, as they are used to determine the number of shares in the new company your client(s) receive, as well as the value of each share from the original company
Security Name	Phillips 66	
Symbol/CUSIP	PSX	
New Cost Allocation (%)	22.48	
Share Distribution Ratio	0.5	
Are you receiving cash in lieu of fractional shares?	<input checked="" type="radio"/> Yes <input type="radio"/> No	
Cash in Lieu Price	0	Consider carefully the value you enter in this field
<input type="button" value="Back"/> <input type="button" value="Next"/> <input type="button" value="Cancel"/> <input type="button" value="Help"/>		

8. Click **Next** to continue.

☞ If a spinoff generates more than one new security, you will see another New Security page when you click Next. Otherwise, you are brought to the Select Which Portfolios page in the wizard.

9. On the Select Which Portfolios screen, you need to select the **Custodian** and determine whether the corporate action will be applied to **All Portfolios** or **Select Portfolios**. All Portfolios is the default and is normally the option selected, unless you need to update only a specific portfolio.

Spin - Off Wizard - Select Which Portfolios

Custodian	SchwabLink	Decide whether the wizard should calculate changes for All portfolios , or just Select portfolios , then click Next
<input checked="" type="radio"/> All portfolios		
<input type="radio"/> Select portfolios		
<input type="button" value="Back"/> <input type="button" value="Next"/> <input type="button" value="Cancel"/> <input type="button" value="Help"/>		

10. Click **Next** to generate the transactions. You are taken to the Corporate Actions Blotter, where you can review the transactions.

Corporate Actions											
	Action	Save	Export	Print	+ Post						
	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	ConocoPhillips	COP	5/1/2012	Debit of Security	2,650.31000	2,650.31000	37.00000	71.63000	77.35000	1/1/2012
<input type="checkbox"/>	2	ConocoPhillips	COP	5/1/2012	Credit of Security	2,054.52031	2,054.52031	37.00000	55.52758	59.96172	1/1/2012
<input type="checkbox"/>	3	Phillips 66	PSX	5/1/2012	Credit of Security	595.78969	595.78969	18.50000	32.20485	34.77656	1/1/2012

☞ If the accounts were imported from Microsoft Excel, it cannot be reconciled; you can simply post the transactions to your accounts.

The original holding has at least two transactions associated with it: a Debit of Security and Credit of Security. These transactions adjust the cost basis of the pre-spin off security.

☞ If you had multiple lots within the original holding, you will have a Debit and Credit transaction for each lot.

The Debit of Security row records the following:

- the number of shares from the original holding
- the price per share, based on the date before the spinoff, and
- the original cost basis per share.

☞ The price per share is pulled from the Definition Master. If you have not made changes for this security, it will use the closing market price on the day before the spinoff.

The Credit of Security row for the original security should reflect the same number of shares as the Debit of Security, but the Price and Per Share Cost Basis are now based on the allocation percentage assigned to the original holding per the spinoff calculation.

Using the example above (see the screen shot under step 5 on page 6), the New Cost Allocation (%) entered for the original security was 77.52. This is the percent of the cost basis that will be retained by the original security. The wizard calculates the new price and per share cost basis based on the factors and values in the table below:

Item	Value
Number of shares of original security	37
Value of original security on date before spinoff	\$2,650.31
Original per share cost basis	\$2,861.95
New cost allocation for original security	77.52%

The new price for the original security is calculated as follows:

$$\begin{aligned} \$2,650.31 \text{ (value of original security)} \times 77.52\% \text{ (new cost allocation\%)} &= \$2,054.52031 \\ \$2,054.52031 / 37 \text{ (original shares)} &= \$55.52758 \text{ (new price)} \end{aligned}$$

The updated cost basis for the original security is calculated as follows:

$$37 \text{ (original shares)} \times 77.35 \text{ (original per share cost basis)} = \$2,861.95$$

$$\begin{aligned} \$2,861.95 \times 77.52\% \text{ (new cost allocation\%)} &= \$2,218.58 \\ \$2,218.58 / 37 \text{ (original shares)} &= \$59.96172 \text{ (new per share cost basis)} \end{aligned}$$

How does the Spinoff Wizard determine the value and cost basis of the original security?

A Credit of Security is also generated for the new security. The number of shares associated with the credit is determined by the Share Distribution Ratio entered in the wizard (see the screen shot under step 7 on page 7). In our example, it was 0.5 or $\frac{1}{2}$ share of the new security for each share held in the original security. Since the client had 37 original shares, they now have 18.5 of the new security. The Net Amount, Price, and Per Share Cost Basis are calculated using the New Cost Allocation% (22.48) assigned to the new security through the wizard.

 Note: the New Cost Allocation% assigned to the original and new securities must always equal 100%.

$$\begin{aligned} \$2,650.31 \text{ (value of original security)} \times 22.48\% \text{ (new cost allocation)} &= \$595.7897 \\ \$595.7897 / 18.5 \text{ (new shares)} &= \$32.20485 \text{ (new price)} \end{aligned}$$

If the corporate action resulted in fractional shares being sold, they will appear on the Cash in Lieu blotter, which can be accessed from left-hand side of the screen. Open the Cash in Lieu blotter to review the transactions for accuracy and possible updates before they are posted.

Cash in Lieu								
	Post	X Delete	Save	Export	Print	Update Transaction		
	Holding Name	Ticker	Transaction Date	Transaction Type	Net Amount	Gross Amount	Number of Shares	Price
1	Phillips 66	PSX	5 / 1 /2012	Sell	15.39000	15.39000	0.50000	30.78000
2	Sweep Account		5 / 1 /2012	Deposit	15.39000	15.39000	15.39000	1.00000

Based on the value you entered for the Cash in Lieu price when completing the wizard, see either "How do I handle the cash transaction for fractional shares if I entered 0 for Cash in Lieu?" on page 10, or "How do I handle the cash transaction for fractional shares if I entered a real price for Cash in Lieu?" on page 10.

How does the Spinoff Wizard determine the value and cost basis of the new security?

If you entered 0 for the Cash in Lieu price in the Spinoff Wizard, 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 prior to deleting them to retrieve the Net Amount.

Morningstar recommends updating the Net Amount column rather than 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 (18.756 instead of 18.76), this could result in incorrect values in the Cash account.

After entering the **net amount** in both the Sell and Deposit fields, click **Save** to have the system complete the transaction.

How do I handle the cash transaction for fractional shares if I entered 0 for Cash in Lieu?

If you entered an actual price for Cash in Lieu as you completed the Spinoff Wizard, you need to check each transaction that appears on the Cash in Lieu blotter to make sure no extended values exist beyond the decimal place in the Net Amount and Gross Amount fields.

For example, when looking at the Net Amount column, the value may appear to be 18.76, but if you click in the cell it could actually be 18.756. Morningstar recommends updating the **value** (if more than two digits appear after the decimal) in the Net Amount and Gross Amount columns, and clear the Price value. When you save the changes, the price will recalculate.

Once you have verified/updated the transactions in the Cash in Lieu blotter, you need to reconcile. Reconciling will allow you to verify that the Corporate Action was done correctly. If you have Out of Balances, please refer to the out of balance FAQ on page 13.

How do I handle the cash transaction for fractional shares if I entered a real price for Cash in Lieu?

FAQs for Spin-Off Transactions

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

You cannot use the spinoff 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 spinoff you are looking for on the Corp Action in My Practice page within the Corporate Action Warehouse, click the Spinoff folder in the left-hand navigation pane and select the appropriate year and search for it there.

If the spinoff is not located there either, you can still use the Corporate Action Wizard and simply populate the information yourself.

Morningstar populates the fields in the Spinoff Wizard based on the information in its database; sometimes a delay could exist between the time a spinoff takes place and when it is available in the Corporate Action Warehouse. If the spinoff 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 Spinoff Wizard yourself, or you can wait for the information to become available within Morningstar Office.

Here are a few helpful places to search for information on corporate actions.

- 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>

If you decide not to continue with posting the spinoff transactions due to missing information, you should still export all transactions related to the spinoff into an Excel spreadsheet (for later reference), and then delete these transactions from Office.

When you reconcile this data, you will see out of balances related to the spinoff. These can be ignored and you can continue with the posting process. These items will remain out of balance until the spinoff is handled.

If you do not want to continue with the import process while having out of balances, you can delay posting your data until you are able to use the Spinoff Wizard and you have reconciled successfully.

Overview

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

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

What if information is missing from the Spinoff Wizard?

What should I do with the spinoff transactions if I decide to wait for the information to become available within the Spinoff Wizard?

U.S. federal tax law does not specifically identify how the fair market values of spinoff shares should be determined, so several acceptable methods exist. They include using the following:

- the closing trading price when issued on the distribution date
- the opening trading price issued on the first trading date
- the high-low average trading price issued on the first trading date, and
- the closing trading price issued on the first trading date.

☞ Morningstar uses the closing trading price issued on the first trading date for the cost allocation.

You can still post transactions with out-of-balance errors. The shares out of balance will remain out of balance until the correct transactions are generated to achieve the correct number of shares in the account.

What if the Cost Allocation for the new security in the Spinoff Wizard is different from what I find?

Morningstar uses the date the spinoff 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 within the Spinoff Wizard if you want to change it.

Can I post my data if I haven't completed the Spinoff Wizard, or if I have out-of-balance errors?

The price needed for the Cash in Lieu field in the Spinoff Wizard can be calculated using the following steps:

1. Pick the account with the largest number of shares that received a Cash in Lieu transaction.
2. Multiply the original number of shares times the share distribution ratio. This results in the total number of shares for the new security.
3. Use the amount from the Cash in Lieu transaction and divide by the fractional share from the new security (be sure to use the entire number after the decimal place).
4. Enter this price in as the Cash in Lieu Price. Be sure to use all of the trailing decimal places.

You will need to verify the transactions afterwards for accuracy. Be sure the Net Amount and Gross Amount fields for the transactions have only two digits after the decimal, as this could affect your Cash balance. This can be done by clicking in these fields; any additional digits beyond the decimal will be displayed.

The Debit of Security transaction for the original security uses the end of business day price. The amount of the original security is then multiplied by the New Cost Allocation% for the original security. This determines the amount of the Credit of Security transaction(s). This value should then be divided by the number of shares to determine the price. This is done for the new security as well.

What if Morningstar's Effective Date is different from my custodian's?

What if this Corporate Action affects multiple accounts and I don't want to later enter the Cash in Lieu amount individually for each account?

Why are the prices on the Credit of Security transactions different from the end of business day price on the day of the transaction?

This usually means the Cash in Lieu has been accounted for twice. You generated a Sell transaction for the fractional share using the Spinoff wizard, but the custodian also recorded a Cash in Lieu transaction. The custodian usually sends this transaction as a Distribution for the new security, or a Deposit into Cash. If you have not posted this transaction, go to the Transactions blotter, and look for the transaction sent from the custodian.

- ☞ You can sort 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 of the screen.

Delete the Cash in Lieu transaction. If it shows as a Distribution, delete that item. (Morningstar automatically deletes the offsetting Cash transaction via the Corporate Action Wizard.)

If the transaction came in as a Deposit into Cash, verify that the transaction is not linked to any other transaction by ensuring the Source field is blank, and then delete it. Be sure not to delete any Money Market transactions.

It is still recommended to use the Spinoff Wizard, but you can choose instead to generate the transactions manually.

- ☞ If you elect not to enter these transactions manually, the total portfolio performance should remain the same, but the individual security performance will not be accurate.

Note the following important points:

- If you enter these transactions manually, use a Credit of Security transaction to bring in the shares of the spun-off security.
- If the custodian sends a spinoff transaction without a transaction type, click in the Transaction Type field, and select Credit of Security.
- To handle the Cash in Lieu correctly, as opposed to using the Distribution or Deposit into Cash that is sent from the Custodian, credit in the fractional share, then sell the fractional share for the Cash in Lieu amount.
- The Spinoff Wizard debits out the original shares and credits these shares back, as well as crediting in the new shares. These credit amounts are based on the Cost Allocation entered; the total debit amount of the original holding ends up equaling the sum of the two credit transactions. This eliminates any Inconsistent Data Warning Message when running performance reporting because the debits and credits net, as well as properly calculating the individual security performance.

What if I have a Cash Out of Balance for more than the Cash-in-Lieu amount?

What if I am not concerned with cost basis, or do not have accurate cost basis on my original security, do I need to use the wizard?