Disclosure

2010
Real Estate Mortgage Investment Conduit (REMIC) & Widely Held Mortgage Trust (WHMT) Guide

Investor's guide to tax reporting for REMIC/WHMT regular interests and other CDOs

Highlights

- This guide helps you understand the tax reporting information related to investments in a collateralized debt obligation (CDO), a debt instrument that is secured by a pool of other debt instruments.

- CDOs that are secured by mortgage obligations take the form of a regular interest in a real estate mortgage investment conduit (REMIC)

- Widely held fixed investment trusts (WHFITs) whose assets are mortgages, amounts received on mortgages and reasonably required reserve funds as measured by value are considered widely held mortgage trusts (WHMTs).

- Taxable interest is calculated using the accrual method of accounting; therefore, the amount reported on Form 1099-INT may not equal the sum of cash payments you actually received during the year.

- Original issue discount (OID) and interest accrual amounts for a REMIC regular interest or CDO are already calculated by the issuer or issuer's agent and provided on your consolidated Form 1099.

- You may be required to use a portion of the acquisition premium to reduce OID included in income during the current year, but only with respect to the same REMIC regular interest or CDO.

- If you bought your REMIC regular interest or CDO in the secondary market, you may be required to report market discount income.

- If a debt instrument issued with OID was purchased with bond premium, you may offset the OID included in current taxable income.

- The sale of a REMIC regular interest or CDO that has OID is subject to special treatment, which may decrease any capital gain or increase any capital loss.

Compliments of UBS

This 2010 Investor's guide to tax reporting was prepared to help you understand the data on your Consolidated Form 1099 and related statements for reporting income from REMIC regular interests and other CDO investments on your federal income tax return.

Please note that this booklet is intended to provide general guidance only. It is not intended to serve as specific legal, accounting or tax advice.

Neither UBS Financial Services Inc. nor its employees provide tax advice. As a result, please consult your tax advisor for guidance on the tax treatment of items contained in your statement. Additionally, any tax advice included in this electronic or written communication was not intended or written to be used, and it cannot be used by taxpayers for the purpose of avoiding any penalties that may be imposed on the taxpayer by any governmental taxing authority or agency.

Many complex provisions of the Internal Revenue Code and IRS regulations affect tax reporting requirements. These provisions are frequently changed, sometimes with retroactive effect. In the preparation of this booklet, every effort has been made to offer clear and accurate information as of the beginning of 2011, however, tax rules and interpretations may change. Because there are varying interpretations and filing requirements for state tax purposes and inadvertent errors can occur, we recommend consulting professional tax advisors concerning specific matters before making any decision regarding tax return reporting positions.

March 2011

Table of contents

Introduction

This guide is designed to help you understand the tax reporting information for investments in a debt instrument that is secured by a pool of other debt instruments, known as a collateralized debt obligation (CDO). Most CDOs that are secured by mortgage obligations take the form of a regular interest in a real estate mortgage investment conduit (REMIC). Throughout this document, we will refer to investments other than REMICs as CDOs.

The information in this guide is intended for individual taxpayers.[1] Other investors should consult their tax advisors as to the proper treatment of REMIC regular interests and CDOs on their respective tax returns.

When possible, this guide illustrates where to report the tax information on your 2010 individual tax return.[2] Additional information regarding the taxation of REMIC regular interests and CDOs is available in Internal Revenue Service (IRS) Publication No. 550, *Investment Income and Expenses*. You can obtain a copy of this publication by calling the IRS at 800-829-3676 or from the IRS website at www.irs.gov/formspubs.

Please note that according to the Internal Revenue Code:

- If you are a holder of a REMIC regular interest, you must include accrued interest and any accrued original issue discount (OID) in your current taxable income, regardless of the amount of cash payments you may have received.
- If you are a holder of a CDO other than a REMIC regular interest, you must include interest income actually received and any accrued OID in your current taxable income.

See pages 7 and 8 for more information on interest income and OID.

All amounts that you are required to report on your individual tax return have been reported to you on your Consolidated Form 1099.

We strongly recommend that you consult your tax advisor when preparing your 2010 individual tax return.

[1] Generally, this type of an investment will be a capital asset in the hands of an individual investor. We strongly recommend that you consult your tax advisor as to whether REMIC regular interests or CDOs are capital assets in your hands.
[2] All references to individual tax return line numbers correspond to the 2010 federal Form 1040. If you are eligible to use Forms 1040A or 1040EZ, please refer to the instructions accompanying those forms for proper reporting procedures.

Widely Held Mortgage Trusts (WHMTs)

If you held an interest in a unit investment trust, mortgage backed security, royalty trust, HOLDR trust, or commodities trust, we are required to report certain details regarding transactions for these securities on IRS Form 1099 because these products are considered widely held fixed investment trusts (WHFITs). WHFITs whose assets are mortgages, amounts received on mortgages, and reasonably required reserve funds as measured by value are considered widely held mortgage trusts (WHMTs). A WHFIT is also considered a WHMT if substantially all of its assets include trust interests in one or more WHMTs and regular interests in one or more real estate mortgage investment conduits (REMICs).

IRS rules governing reporting for WHMTs require us to provide detailed and comprehensive information on Forms 1099. Information (such as income that you received and any proceeds from the sale of assets held by a WHMT) is displayed on Forms 1099-B issued by UBS for tax year 2010. Forms 1099-DIV, 1099-INT, and 1099-OID also display items of gross income and expense as required for WHMTs.

We are also required to provide you with detailed information regarding items of gross income and expenses for WHMTs by no later than March 15, 2011. This information is presented in the "Supplemental Information for Widely Held Mortgage Trusts" section of your statement. You need this additional information to complete your tax return. The information is provided only to you, and not to the IRS. It sets forth detailed information regarding income and expenses for WHMTs.

Below is an explanation of information reflected on your Form 1099 and in the Supplemental Information section for WHMTs:

Principal Paid or Proceeds—represents the principal distributed to record date holders or the proceeds of a sale net of accrued interest. This amount includes redemption and sales proceeds and redemption and sales asset proceeds. It also includes principal payments that completely retire a debt instrument (other than a final scheduled principal payment) and pro rata partial principal prepayments. The amount should be reported on Form 1040 Schedule D.

Cost/Purchase Price—represents the original amount paid for the units including broker's commissions or the fair market value of such units on the date they were distributed) net of accrued interest. This amount should be entered on IRS Form 1040, Schedule D.

Interest—represents the gross amount of interest distributed to you and received as accrued interest on sales or paid as accrued interest on purchases.

Expenses—this amount represents your share of investment expenses paid by the trust. You may be able to deduct these expenses on IRS Form 1040, Schedule A, line 14, but the deduction is limited to net investment income.

Income Adjustment—you must increase or decrease your taxable income by the amount of this premium or discount on purchases for your account.

Market Discount Fraction—is the ratio used to compute your market discount income or premium amortization for the year. Amortization of bond premiums is deductible on Form 1040, Schedule A, line 28. If you are claiming a deduction for amortization of premiums for bonds acquired after October 22, 1986, but before January 1, 1988, the deduction is treated as interest expense and is subject to the investment interest limitations. Use Form 4952, Investment Interest Expense Deduction, to compute the allowable deduction. For taxable bonds acquired after 1987, you can elect to amortize the bond premium over the life of the bond. See IRS Publication 550 for more information.

Redemption Proceeds—represents the total amount paid to a redeeming trust interest holder and should be reported on IRS Form 1040 Schedule D. For purposes of your statement, this amount also includes redemption asset proceeds (i.e., redemption proceeds less the cash held for distribution with respect to the redeemed trust interest) and trust sales proceeds (i.e., the total amount paid to a selling trust interest holder for the sale of a trust interest). The trust sales proceeds presented includes principal payments that completely retire a debt instrument (other than a final scheduled principal payment) and pro rata partial principal prepayments. It does not include pro rata sales by NMWHFITs (Non Mortgage Widely Held Fixed Investment Trusts) to affect redemption or assets received in any corporate reorganization.

Please consult with your tax advisor regarding the proper treatment of your share of income and expenses for WHFITs and WHMTs.

Cost Basis Allocation Factor

Information regarding cost basis allocation factors is displayed for WHMTs in the Supplemental Information section of your statement. Please use the Cost Basis Allocation Factor provided to allocate a portion of your cost basis in the WHMT (i.e., what you paid for the WHMT less any reinvested dividend and/or capital gains distributions) to each sale or disposition in order to determine sales proceeds attributable and reportable and gain/loss realized on Schedule D of Form 1040. The items in this section are provided to assist you with your tax return preparation. You should discuss the appropriate tax treatment of these items with your tax preparer or tax advisor.

Interest income

For investors in REMIC regular interests, we report the amount of interest accrued during the calendar year on your Consolidated Form 1099.

How is taxable interest calculated?
We calculate your taxable interest using the accrual method of accounting, which recognizes interest earned during the calendar year without regard to cash actually paid. Consequently, the amount we report on Line 1 of your Form 1099-INT, which is included on your Consolidated Form 1099, may not equal the sum of cash payments that you received during the calendar year.

For investors in CDOs other than REMIC regular interests, the interest we report, other than original issue discount (OID) and market discount, as described on pages 8 and 11 respectively, will equal the sum of the interest payments received during the calendar year.

Why would I have to report more interest income than I actually received?
Because of certain Internal Revenue Code provisions, investors in REMIC regular interests may see a difference between the amount of interest actually received and the amount reported on the Consolidated Form 1099.[3] This generally occurs as the result of the delay between the time the interest is earned and the time it is actually paid to you by the REMIC. However, the difference usually arises only in the year of acquisition and generally reverses as principal payments are made in the year of disposition. Therefore, the difference is only one of timing. The following example should help illustrate this point:

Year one
An individual invests $2,000 in a REMIC regular interest on October 31, 2010, at an interest rate of 7.5%. For administrative reasons, there is a 25-day pass-through lag between the time the interest is earned and the time it is actually paid to the investor by the REMIC.

The following chart shows the difference between the interest accrued and the interest received by the investor during 2010 (assuming there were no payments of principal in 2010).

Period	Interest accrued	Interest received
10/31 – 11/30	$12.50[4]	$0.00
12/1 – 12/31	12.50	12.50
Total	**$25.00**	**$12.50**

In this example, the investor receives only $12.50 in cash but must report $25.00 of interest income on his or her 2010 individual tax return. This amount will appear in the column labeled ‘"Period Interest Accrued" on your statement entitled *Supplemental Information for REMICs and CDOs.*

While it may not seem fair to have to report more than you received, the following example will demonstrate how this treatment is later reversed.

Year two
The same investor sells his or her REMIC investment on March 31, 2011. The following chart shows the difference between the interest accrued and the interest received by the investor during 2011.

Period	Interest accrued	Interest received
1/1 – 1/31	$12.50	$12.50
2/1 – 2/28	12.50	12.50
3/1 – 3/31	12.50	12.50
4/1 – 4/30	0.00	12.50
Total	**$37.50**	**$50.00**

As illustrated, the investor receives $50.00 in 2011, but must only report $37.50 of interest income on his or her 2011 individual tax return. Therefore, the difference when using the accrual method is one of timing. However, this difference may have a slight economic impact due to changing tax rates and the time value of money.

[3] A cash versus accrual difference for investors in REMIC regular interests may also arise due to Interest shortfalls. Interest shortfalls are the excess of interest accrued over cash actually collected on the underlying loans.
[4] $2,000 x 7.5%/12 months.

Original issue discount (OID)

What is OID?

OID is generally defined as a debt instrument's stated redemption price at maturity minus its issue price. The Internal Revenue Code requires that this amount be accrued over the life of the instrument.

In general, the amount of OID to be included in income must be calculated using the "constant yield method." Under this method, OID is allocated over the life of the instrument through adjustments to the issue price for each accrual period.

It is not necessary, however, for you, as the holder of a REMIC regular interest or CDO, to calculate the OID and interest accrual amounts for these debt instruments. These amounts are calculated by the issuer or issuer's agent and provided to you on your Consolidated Form 1099.

In some cases, the issuer classifies all interest as OID. This may occur, for instance, when stated interest payments are not unconditionally payable on a current basis. If this is the case, the OID amount reported to you on Line 1 of your Form 1099-OID will include any interest you receive. Therefore, there will be no entry on Line 1 of your Form 1099-INT.

Must I report OID income each year?

If a REMIC regular interest or CDO is issued with "de minimis"[5] OID or if your OID included in gross income is less than $10.00, you do not have to report the OID on your individual tax return. OID that is "de minimis" must be included in income, as a capital gain, on a pro rata basis, as each partial payment of principal is made on the instrument.

In general, however, if you have received a Form 1099-OID as part of your Consolidated Form 1099, you will be required to report the OID amounts provided in your gross income.

How much OID must I include in income currently?

You must include in income the sum of the daily portions of OID determined for each day that you hold the REMIC regular interest or CDO during the year.

You must also include any accrued OID on a REMIC regular interest or CDO in income currently. The amount to be included in income this year can be found on Line 1 of Form 1099-OID of your Consolidated Form 1099.

The OID reported on Line 1 of Form 1099-OID is itemized for each security held during 2010 in your statement entitled *Original Issue Discount Details Reported on Form 1099-OID.* **The OID on Line 1 of Form 1099-OID should be reported on Line 1, Part I of Schedule B (Form 1040).**

What if I purchased the instrument in the secondary market?

– If you purchased a REMIC regular interest or CDO in the secondary market, it likely would have been purchased at either a discount or premium compared to the instrument's adjusted issue price[6] on the date of purchase.
– If you purchased the REMIC regular interest or CDO at a premium or discount, you may be required to adjust the amount of OID income that is currently reportable as described under "Acquisition Premium" or "Market Discount," respectively.
– If the REMIC regular interest or CDO was not purchased at a discount or premium, you must include in income on your individual tax return the entire amount of interest income and OID that was reported to you on Line 1 of Form 1099-INT and Line 1 of Form 1099-OID.

To determine whether you have purchased your REMIC regular interest or CDO at a premium or discount to the instrument's adjusted issue price,[7] you must use the reported adjusted issue price on the date of purchase for each instrument. If you purchased your REMIC regular interest or CDO before 2010, you must refer to the *Supplemental Information for REMICs and CDOs* sections on your Consolidated Form 1099, for the year in which you purchased the instrument.

[5] For these purposes, OID is "de minimis" if such discount is less than one fourth of 1% (0.0025) of the stated redemption price of the bond at maturity multiplied by the number of full years from the date of original issue to maturity.

[6] Original issue price plus all OID included in income prior to the current accrual period, minus any payments received other than a payment of qualified stated interest. The adjusted issue price appears on your statement entitled *Supplemental Information for REMICs and CDOs*, which is included on your Consolidated Form 1099 (see Item E on Exhibit I).

[7] The adjusted issue price appears on your statement entitled *Supplemental Information for REMICs and CDOs*, which is included on your Consolidated Form 1099 (see Item E on Exhibit I). Please note that the amount shown is per $1,000 of original par or face value. Therefore, assuming that REMIC regular interests and CDOs are marketed as bonds with a par value of $1,000 and you are holding more than one bond, you must multiply the adjusted issue price by the number of bonds you own for an accurate purchase price determination.

In addition, if you are holding debt instruments that you purchased prior to 2010, have not amortized premiums or discounts on such instruments in previous years and choose to begin amortizing these amounts in 2010, you will need to calculate your 2010 amortization amounts as if you had been using the same method from the time of purchase.

The amortization amount applicable to your 2010 tax return, however, will not include amounts calculated for the periods from the date of purchase until the beginning of 2010. Such amounts of amortized premiums, which were not previously reported in net income, should be considered at the time of disposition or redemption. Please consult your tax advisor.

Acquisition premium

What is acquisition premium?

If you purchased a REMIC regular interest or CDO for an amount that is greater than the instrument's adjusted issue price on the date of purchase, but less than its stated redemption price at maturity (minus any prior payments of principal or OID), the purchase price minus the adjusted issue price is referred to as acquisition premium.

You must use a portion of this acquisition premium to reduce OID included in income during the current year, but only with respect to the same REMIC regular interest or CDO. The method that is used to compute the portion of acquisition premium used as an offset in each year is referred to as the fixed fraction method.

Alternatively, a holder of a debt instrument may be able to elect other methods of recognizing acquisition premium. While, in general, these methods result in a faster inclusion of income than the fixed fraction method, you may wish to consult your tax advisor to determine whether these other methods may be beneficial to you. The following example, however, illustrates only the "fixed fraction" method.

Example 1

On April 30, 2008, an 8% REMIC regular interest (with a par value of $100,000.00) sold for $93,500.00 at original issue. The yield to maturity[8] upon issuance (which is similar to a bond equivalent yield) was 9%, calculated over a 10-year period, compounded semi-annually.

Assuming no payments of principal prior to maturity, the debt instrument provides for interest payments of $4,000.00 every six months. For purposes of this example, the accrual period is the six-month period ending on April 30 and October 31 of each year.

You purchased this instrument in the secondary market on April 30, 2010, for $96,500.00. The adjusted issue price at the time of purchase was 0939.2434 per $1,000 original par. This appears in the column labeled 'beginning adjusted issue per 1000'[9] on your statement entitled *Supplemental Information for REMICs and CDOs* (see Item E on Exhibit I). The adjusted issue price is calculated as follows:

$100,000 / $1,000 = 100

100 * .0939.2434 = $93, 924.34

The method of calculating net OID included in your current taxable income is illustrated below:

Step A: Determine the amount of acquisition premium. Acquisition premium = purchase price - adjusted issue price

$2,575.66 = $96,500.00 - $93,924.34

Step B: Determine the amount of unaccrued OID remaining until maturity, as of the date of purchase. Unaccrued OID remaining = par or face value - adjusted issue price

$6,075.66 = $100,000.00 - $93,924.34

Step C: Calculate the "fixed fraction". (The amounts that you have calculated in steps A and B are the numerator and denominator, respectively, of a ratio known as the 'fixed fraction.')

$$\text{Fixed fraction} = \frac{\text{Acquisition premium}}{\text{Unaccrued OID remaining until maturity, as of the date of purchase}}$$

$$42.393\% = \frac{\$2,575.66}{\$6,075.66}$$

Step D: Compute the amortization of acquisition premium for the current year. (If you hold more than one REMIC regular interest or CDO, refer to the statement entitled Original Issue Discount Details Reported on Form 1099-OID, which is included on your Consolidated Form 1099, for the specific amount of OID for each instrument.) Amortization of acquisition premium = accrued OID (Item H on Exhibit I) x fixed fraction

$130.36 = $307.50 x 42.393%

Step E: Compute the net OID included in your current taxable income for a particular REMIC regular interest or CDO. OID included in income = OID reported on Form 1099-OID - amortization of acquisition premium

$177.14 = $307.50 - $130.36

Thus, for the 2010 calendar year, you are required to include $177.14 of net OID income for this particular REMIC regular interest. **Note that on Schedule B, you report separately the unadjusted amount of $307.50 and the adjustment of $130.36.**

[8] Yield to maturity (bond equivalent yield) is the rate of return on a long-term investment taking into consideration its purchase price and redemption value, the total amount of annual interest payments and the time period until maturity. This is information that can be obtained from your Financial Advisor upon request.

[9] Please note that the amount shown is per $1,000 of original par or face value. Therefore, assuming that REMIC regular interests and CDOs are marketed as bonds with a par value of $1,000, and you are holding more than one bond, you must multiply the adjusted issue price by the number of bonds you own for an accurate purchase price determination.

Market discount

What is market discount?
Market discount is generally the adjusted issue price of your REMIC regular interest or CDO minus your cost basis or purchase price for the debt instrument.

- You can find the purchase price on your original purchase confirmation.
- The adjusted issue price appears in the column labeled "Beginning Adjusted Issue Per 1000," on your statement entitled *Supplemental Information for REMICs and CDOs*, which is included on your Consolidated Form 1099 (see Item E on Exhibit I).
- If your purchase price was less than the adjusted issue price, you have market discount.[10]

Market discount generally arises when the value of a debt instrument decreases after its issue date. If you bought your REMIC regular interest or CDO in the secondary market, it may have market discount and you may be required to report market discount income. The total amount of market discount will be allocated over the remaining life of the instrument.

If the market discount is considered "de minimis,"[11] you will not be subject to the special rules governing market discount described below, but you are required to recognize gain as each partial payment of principal is made on the instrument.

Do I have to report accrued market discount currently on my individual tax return?
You do not have to include market discount in your taxable income as it accrues unless you elect to do so. If you elect to include market discount in taxable income as it accrues, you must treat all debt instruments acquired with market discount this year and in all subsequent years in the same manner. You should consult your tax advisor and IRS Publication Nos. 550, 938 and 1212 to determine whether to make this election.

If you make the election, the amount of market discount that should be included in taxable income currently will equal the market discount accrued for the year, as illustrated on the next page in Example 2. Report market discount separately from interest income or OID reported to you on your consolidated Form 1099.

Because market discount is taxable as interest income, it should be reported on Line 1, Part I of Schedule B (Form 1040).

If you do not elect to include market discount in your taxable income as it accrues, you must report market discount when there is either a partial principal payment or a gain on disposition. Therefore, it is generally necessary to calculate the accrued market discount for each year during which you receive a principal payment or dispose of the instrument, even if you do not elect to include it in taxable income as it accrues.

If you do not elect to include market discount as it accrues, you must include any partial principal payment that you receive in your taxable income as interest income to the extent of the market discount that has accrued in prior and current years but has not previously been included in taxable income. Additionally, upon disposition of the debt instrument, you must reclassify a portion of any gain as interest income to the same extent. The balance of any such gain will be a capital gain if the instrument is a capital asset in your hands.

If you do not elect to include market discount currently and you borrowed to purchase your REMIC regular interest or CDO, you may have a limitation on your deduction for interest expense related to the borrowing. Please consult your tax advisor if you have borrowed to purchase debt instruments (for example, if you purchased such instruments on margin).

Computation of accrued market discount for 2010
The *Supplemental Information for REMICs and CDOs* provided on your 2010 Consolidated Form 1099 provides a market discount fraction for each period of the year (see Item F on Exhibit I). To determine how much market discount has accrued during 2010, you can use the market discount fraction method.

[10] If the purchase price was greater than the adjusted issue price, you purchased the instrument at a premium. See the acquisition premium section, on page 10, or the bond premium section on page 13, for proper reporting requirements.
[11] For these purposes, market discount is "de minimis" if such discount is less than one fourth of 1% of the stated redemption price of the bond at maturity multiplied by the number of full years from the date of original issue to maturity.

Example 2

Based upon the facts provided in Example 1, with the exception of the purchase price, this example illustrates the calculation of the market discount that accrues during the current year. Assume that the debt instrument was purchased on April 30, 2010, for $87,650.

Step A: Determine the market discount.

Market discount = adjusted issue price - purchase price $6,274.34 = $93,924.34 - $87,650.00

(Since the market discount exceeds 0.25% of the stated redemption price at maturity multiplied by the weighted average maturity ($100,000 x 0.25% x 9 years = $2,250), the market discount is not "de minimis.")

Step B: Determine the market discount accrued for the first period.

Market discount accrued for the first period = market discount x market discount fraction (refer to Item F on Exhibit I)

$1.29 = $6,274.34 x 0.00020574

Step C: Determine the remaining market discount.[12]

Remaining market discount = market discount - market discount previously accrued

$6,273.05 = $6,274.34 - $1.29

Step D: Determine the amount of market discount that accrued for each subsequent period until the earliest of: maturity, disposition or year-end. Market discount accrued for each subsequent period = remaining market discount x market discount fraction applicable to each period

Accrual Period	
5/1/10 - 10/31/10	$237.52 = $6,273.05 x 0.03786375
11/1/10 - 12/31/10	$ 78.74 = $6,035.53 x 0.01304665

Step E: Determine the amount of market discount accrued for the year. Market discount accrued for year = market discount accrued for each period within year

$317.55 = $1.29 + $237.52 + $78.74

Example 3

Based upon the facts in Example 2, this example illustrates the reclassification of market discount from capital gain income to ordinary income upon the realization of a gain at disposition. For purposes of this example, assume that on December 31, 2010, you sell for $98,000.00 the investment that you purchased for $87,650.00.

Step A: Determine the gain upon disposition.

Gain upon disposition = sale price - (purchase price + OID previously included in income)

$10,042.50 = $98,000.00 - ($87,650.00 + $307.50 [Item H, Exhibit I])

Step B: Determine the portion of the gain that is attributable to accrued market discount not previously included in your taxable income. Gain attributable to market discount = lesser of:

Gain upon disposition, or
Accrued market discount not previously included in income

$317.55 = lesser of:

$10,042.50, or
$317.55

Step C: Determine the capital gain upon disposition.
Capital gain upon disposition = gain upon disposition - gain attributable to market discount

$9,724.95 = $10,042.50 - $317.55

[12] Step C will be applied at the end of each period to calculate the new remaining market discount. For example: $6,035.53 = $6,274.34 - ($1.29 + $237.52).

Bond premium

What is bond premium?

Bond premium is the purchase price minus the stated redemption price at maturity. If you purchase a debt instrument issued with OID, and there is bond premium, you may offset the OID included in current taxable income.

Moreover, if you acquire any debt instrument with bond premium, you may elect to amortize the bond premium to offset current interest income with respect to the same debt instrument. However, if this election is made, it will apply to all such debt instruments you hold at the beginning of the year in which the election was made and to all debt instruments subsequently purchased. Therefore, it is recommended that you consult your tax advisor before making this election.

If you are holding debt instruments that you purchased before 2010, have not amortized premiums on such instruments in previous years and choose to begin amortizing these amounts in 2010, you will need to calculate your 2010 amortization amounts as if you had been using the same method from the time of purchase.

The amortization amount applicable to your 2010 tax return, however, will not include amounts calculated for the periods from the date of purchase until the beginning of 2010. Such amounts of amortized premiums, which were not previously reported in net income, can be applied at the time of disposition or redemption. Please consult your tax advisor.

Example 4

Based upon the facts from Example 1, the following example illustrates the calculation of the bond premium amortization for the year that can be used to offset current interest income. Assume that the debt instrument was purchased on April 30, 2010, for $105,789.00. Additionally, assume that the investor decided to make the election to amortize bond premium over the remaining life of the debt instrument. Therefore, the investor can completely offset any OID amounts included for the year in current taxable income and amortize the bond premium using the market discount fraction method as discussed in the market discount section.

Step A: Determine the bond premium. Bond premium = purchase price -
stated redemption price at maturity

$5,789.00 = $105,789.00 - $100,000.00

Step B: Determine the bond premium amortization for the first period. Bond premium amortization for the first period = bond premium x market discount fraction (refer to Item F on Exhibit I)

$1.19 = $5,789.00 x 0.00020574

Step C: Determine the remaining bond premium.[13] Remaining bond premium = bond premium - bond premium previously amortized

$5,787.81 = $5,789.00 - $1.19

Step D: Determine the amount of bond premium that is amortized for each subsequent period until the earliest of maturity, disposition or year-end. Bond premium amortization for each period = remaining bond premium x market discount fraction applicable to each period

Accrual Period	
5/1/10 – 10/31/10	$219.15 = $5,787.81 x 0.03786376
11/30/10 – 12/31/10	$ 72.65 = $5,568.66 x 0.01304665

Step E: Determine the amount of bond premium amortization for the year. Bond premium amortization for the year = bond premium amortization for each period within year

$292.99 = $1.19 + $219.15 + $72.65

Step F: Determine the amount of net interest income for the year for this particular debt instrument. Net interest income = periodic interest accrued (refer to Item G on Exhibit I) - bond premium amortization for the year

$5,098.80 = $5,391.79 - $292.99

[13] Step C will be applied at the end of each period to calculate the new remaining bond premium. For example: $5,568.66 = $5,789.00 - ($1.19 + $219.15).

Where do I report OID income and OID income adjustments?

If the amount of accrued OID and interest income (accrued or received) reported on your Consolidated Form 1099 requires no adjustment, **report these amounts on Line 1, Part I of Schedule B (Form 1040).**

If you are reporting additional market discount income or are amortizing premiums currently, follow the instructions below (refer to Exhibits IIIa, IIIb, IIIc):

1. Include the full amounts reported to you on your Consolidated Form 1099 **on Line 1, Part I of Schedule B (Form 1040).**
2. Calculate a subtotal of all OID and interest amounts listed on Schedule B (Form 1040) and label them as such.
3. Include the amount of amortized premium or accrued market discount (if you elect to report currently) directly below the subtotal. Label these amounts accordingly, "Amortization of acquisition premium," "Accrued market discount," "Amortization of bond premium (ABP) adjustment."
4. Subtract the premium amounts from the subtotal of any OID and interest income. If you have market discount, add this amount to the subtotal. **In both cases, report the results on Line 2, Part I of Schedule B (Form 1040).**
5. Report this amount **on Line 8a (Taxable interest income), Page 1 of Form 1040.**

Sale of REMIC regular interests or CDOs

The sale of a REMIC regular interest or CDO generally results in a capital gain or loss and **should be reported on Schedule D of your Form 1040 for the year in which the trade date of the sale occurs.** The determination as to whether the capital gain or loss is long-term (more than one year) or short-term (one year or less) depends upon how long you held the REMIC regular interest or CDO. It is strongly recommended that you consult your tax advisor regarding capital gains rules.

The sale of a REMIC regular interest or CDO that has OID is subject to special treatment. OID must be accrued through the date of sale. This will decrease any capital gain or increase any capital loss on the sale of such instrument. **The capital gain/capital loss portion is reported on Schedule D of your Form 1040.**

Any gain realized on the sale of a market discount REMIC regular interest or CDO is also subject to special treatment. As discussed previously, you do not have to report accrued market discount as income during the period in which you held the instrument, except to the extent of principal payments received. However, if you do not elect to include it in your taxable income as it accrues, upon the sale of the REMIC regular interest or CDO, you must recognize a portion of any gain as interest income to the extent of accrued market discount not previously included in your taxable income. The balance, if any, will be a capital gain. **Market discount is taxable as interest income on your individual tax return and is reported on Line 1, Part I of Schedule B (Form 1040). The capital gain portion would be reported on Schedule D of your Form 1040.**

Finally, there are additional rules that apply in special situations upon the sale or disposition of a REMIC regular interest. We therefore recommend that you consult your tax advisor.

What if I transferred my REMIC regular interest or CDO into or out of my account during 2010?

The information appearing on your Consolidated Form 1099 only provides information that applies to the period the REMIC regular interest or CDO was held with UBS Financial Services Inc. If you transferred your position into or out of your account at UBS Financial Services Inc. during the 2010 calendar year, you should receive additional information from your previous or subsequent firm. You should therefore take into consideration the information appearing on all your Forms 1099 before arriving at your final taxable amounts.

What if my REMIC regular interest or CDO became wholly worthless during 2010?

If you sustained a loss on your REMIC regular interest or CDO during 2010 on account of your debt instrument becoming wholly worthless, you may be able to deduct such loss as a capital loss on Schedule D of your 2010 tax return. We recommend that you consult your tax advisor regarding the appropriate timing, amount and character of any loss sustained with respect to your REMIC regular interest or CDO.

Exhibit I

How to read *Supplemental Information for REMICs and CDOs*[14]

UBS Financial Services Inc. is required by the IRS to provide you the following information, supplied by the issuer(s), for each real estate mortgage investment conduit (REMIC) and collateralized debt obligation (CDO) you held in 2010

				A	B	C	D	E	F	
Description	CUSIP number	Accrual period begin date	Accrual period end date	Number of days	Period interest accrued	Daily rate of OID per 1,00	Period OID accrued	Beginning adjusted issue per 1,000	Market discount fraction	Period pass thru expense
Example 1	1469573RAA0	04/30/10	04/30/10	1	21.92	0.0125000	1.25	0939.24340	0.00020574	0.00000000
CMO trust		05/01/10	10/31/10	184	4,032.88	0.0125000	230.00	0939.25590	0.03786376	0.00000000
8%–due 4/30/20		11/01/10	12/31/10	61	1,336.99	0.0125000	76.25	0941.55590	0.01304665	0.00000000

	G	H
Total reported on line 1	$5,391.79 Reported on 1099-INT	$307.50 Reported on 1099-OID

A. This is the number of days in each accrual period used to determine the amount of OID you can report on your tax return.
B. This is the amount of interest you accrued during the period and must report as taxable interest income on your tax return.
C. This is the daily rate of OID accrued during the period per $1,000 of original par or face value.
D. This is the daily rate of OID multiplied by the number of days the instrument was held during the accrual period, multiplied by the number of $1,000 bonds held during the accrual period (the example below assumes a debt instrument of $100,000 par or face value, i.e., 100 $1,000 bonds).
E. This is the original issue price plus all OID you can include in income prior to the current accrual period minus any payments received, other than a payment of qualified stated interest per $1,000 of original par or face value.
F. This is the amount of OID you can allocate to the current accrual period divided by the total remaining OID at the beginning of the accrual period. You can use this ratio to accrue market discount and/or amortize bond premium for the period.
G. This is the total of Column B, reported on Line 1, of your Form 1099-INT.
H. This is the total of Column D, reported on Line 1, of your Form 1099-OID.

[14] The statement shown here is for illustrative purposes only.

Exhibit IIa

Worksheet to determine amortized acquisition premium (see Example 1 and Exhibit IIIa)		
Step 1	Enter your purchase price (minus accrued interest paid).	$96,500.00
Step 2	Enter the adjusted issue price. (Appears in the column labeled "Beginning Adjusted Issue Per 1,000." Remember to multiply this figure by the number of $1,000 bonds you hold of this instrument.)	$93,924.34
Step 3	Subtract the adjusted issue price from your purchase price. (The difference is your total acquisition premium.)	$2,575.66
Step 4	Enter the stated redemption price at maturity.	$100,000.00
Step 5	Enter adjusted issue price from Step 2.	$93,924.34
Step 6	Determine the amount of unaccrued OID remaining at the time of purchase by subtracting the adjusted issue price from the stated redemption price at maturity.	$6,075.66
Step 7	Determine the fixed fraction by dividing the amount from Step 3 by the amount from Step 6.	42.393%
Step 8	Enter the "Original issue discount for 2010" from your Consolidated Form 1099-OID (if you are holding more than one REMIC regular interest or CDO, refer to the statement entitled Original Issue Discount Details Reported on Form 1099-OID for the specific amount of OID for this instrument). Report this amount on Schedule B.	$307.50
Step 9	Multiply the fixed fraction determined in Step 7 by the OID amount in Step 8. Report this as a negative amount used to adjust the OID reported from Step 8.	$130.36

Exhibit IIb

Worksheet to determine accrual of market discount (see Example 2 and Exhibit IIIb)		
Step 1	Enter your purchase price (minus accrued interest paid).	$87,650.00
Step 2	Enter the adjusted issue price. (Appears in the column labeled "Beginning Adjusted Issue Per 1,000." Remember to multiply this figure by the number of $1,000 bonds you hold of this instrument.)	$93,924.34
Step 3	Subtract your purchase price from the adjusted issue price. (The difference is your total market discount.)	$6,274.34
Step 4	Multiply your market discount by the market discount fraction in period 1. (See Exhibit I. The product is your period accrued market discount.)	$1.29
Step 5	Subtract the period accrued market discount from your total market discount. (The difference is your remaining market discount.)	$6,273.05
Step 6	Repeat Step 4 and Step 5 using the market discount fraction and your remaining market discount for each subsequent period: $237.52 = $6,273.05 x 0.03786376 $78.74 = $6,035.53 x 0.01304665	
Step 7	This process should continue until the earliest of the following: maturity, disposition or year-end. If year-end, compute Step 5 and retain for 2011.	$5,956.79
Step 8	Compute your total accrued market discount for 2010: $317.55 = $1.29 + $237.52 + $78.74	
Step 9	If you have received partial payments of principal, you are required to include in income during the 2010 calendar year the lesser of (i) the total amount of those principal payments or (ii) the total accrued market discount for the year plus any such discount accrued on the instrument in prior years and not previously included in income. If the accrued market discount exceeds the total principal amount received, you may elect to include the full amount of the accrued market discount in your taxable income currently. It is strongly recommended, however, that you consult your tax advisor before making this election. For illustration purposes, Exhibit IIIb assumes this investor elected to report the accrued market discount in 2010.	

Exhibit IIc

Worksheet to determine amortized bond premium (see Example 4 and Exhibit IIIc)		
Step 1	Enter your purchase price (minus accrued interest paid).	$105,789.00
Step 2	Enter the stated redemption price at maturity on the date of purchase.	$100,000.00
Step 3	Subtract the stated redemption price at maturity from your purchase cost. (The difference is your total bond premium.)	$5,789.00
Step 4	Multiply this amount by the market discount fraction in accrual period 1. (See Exhibit I. The product is your period amortized bond premium.)	$1.19
Step 5	Subtract the period amortized bond premium from your total bond premium. (The difference is your remaining bond premium.)	$5,787.81
Step 6	Repeat Step 4 and Step 5 using the market discount fraction and your remaining bond premium for each subsequent period: $219.15 = $5,787.81 x 0.03786376 $ 72.65 = $5,568.66 x 0.01304665	
Step 7	This process should continue until the earliest of the following: maturity, disposition or year-end. If year-end, compute Step 5 and retain for 2011.	$5,496.01
Step 8	Compute your total amortized bond premium for 2010: $292.99 = $1.19 + $219.15 + $72.65	
Step 9	If you have bond premium, you can eliminate any OID reported on Line 1 of your Form 1099-OID by including a negative adjustment in the full amount of the OID (labeled "ABP Adjustment – OID"). You may also elect to amortize bond premium currently to offset a portion of your interest income. Alternatively, you may defer recognition of bond premium until disposition or maturity. Therefore, it is strongly recommended that you consult your tax advisor before making such an election. For illustration purposes, Exhibit IIIc assumes that this investor elected to amortize bond premium in 2010, as an offset to interest income.	

Exhibit IIIa

SCHEDULE B (Form 1040A or 1040)

Department of the Treasury Internal Revenue Service (99)

Interest and Ordinary Dividends

▶ Attach to Form 1040A or 1040. ▶ See instructions on back.

OMB No. 1545-0074

2010

Attachment Sequence No. 08

Name(s) shown on return | Your social security number

Part I Interest

(See instructions on back and the instructions for Form 1040A, or Form 1040, line 8a.)

Note. If you received a Form 1099-INT, Form 1099-OID, or substitute statement from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

			Amount	
1	List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see instructions on back and list this interest first. Also, show that buyer's social security number and address ▶	1		
	UBS Financial Services, Inc. - OID		307	50
	UBS Financial Services, Inc. - Interest		5391	79
	Subtotal		5699	29
	Amortization of Acquisition Premium		-130	36
2	Add the amounts on line 1	2	5568	93
3	Excludable interest on series EE and I U.S. savings bonds issued after 1989. Attach Form 8815	3		
4	Subtract line 3 from line 2. Enter the result here and on Form 1040A, or Form 1040, line 8a ▶	4	5568	93

Note. If line 4 is over $1,500, you must complete Part III.

Part II Ordinary Dividends

(See instructions on back and the instructions for Form 1040A, or Form 1040, line 9a.)

Note. If you received a Form 1099-DIV or substitute statement from a brokerage firm, list the firm's name as the payer and enter the ordinary dividends shown on that form.

			Amount
5	List name of payer ▶	5	
6	Add the amounts on line 5. Enter the total here and on Form 1040A, or Form 1040, line 9a ▶	6	

Note. If line 6 is over $1,500, you must complete Part III.

Part III Foreign Accounts and Trusts

(See instructions on back.)

You must complete this part if you **(a)** had over $1,500 of taxable interest or ordinary dividends; **(b)** had a foreign account; or **(c)** received a distribution from, or were a grantor of, or a transferor to, a foreign trust.

		Yes	No
7a	At any time during 2010, did you have an interest in or a signature or other authority over a financial account in a foreign country, such as a bank account, securities account, or other financial account? See instructions on back for exceptions and filing requirements for Form TD F 90-22.1		
b	If "Yes," enter the name of the foreign country ▶		
8	During 2010, did you receive a distribution from, or were you the grantor of, or transferor to, a foreign trust? If "Yes," you may have to file Form 3520. See instructions on back		

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 17146N **Schedule B (Form 1040A or 1040) 2010**

Exhibit IIIb

SCHEDULE B (Form 1040A or 1040)

Department of the Treasury Internal Revenue Service (99)

Interest and Ordinary Dividends

▶ Attach to Form 1040A or 1040. ▶ See instructions on back.

OMB No. 1545-0074

2010

Attachment Sequence No. 08

Name(s) shown on return | Your social security number

Part I Interest

(See instructions on back and the instructions for Form 1040A, or Form 1040, line 8a.)

Note. If you received a Form 1099-INT, Form 1099-OID, or substitute statement from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

1 List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see instructions on back and list this interest first. Also, show that buyer's social security number and address ▶

		Amount
UBS Financial Services, Inc. - OID	1	307 50
UBS Financial Services, Inc. - Interest	1	5391 79
Subtotal	1	5699 29
Accrued Market Discount	1	317 55
2 Add the amounts on line 1	2	6016 84
3 Excludable interest on series EE and I U.S. savings bonds issued after 1989. Attach Form 8815	3	
4 Subtract line 3 from line 2. Enter the result here and on Form 1040A, or Form 1040, line 8a ▶	4	6016 84

Note. If line 4 is over $1,500, you must complete Part III.

Part II Ordinary Dividends

(See instructions on back and the instructions for Form 1040A, or Form 1040, line 9a.)

Note. If you received a Form 1099-DIV or substitute statement from a brokerage firm, list the firm's name as the payer and enter the ordinary dividends shown on that form.

		Amount
5 List name of payer ▶	5	
6 Add the amounts on line 5. Enter the total here and on Form 1040A, or Form 1040, line 9a ▶	6	

Note. If line 6 is over $1,500, you must complete Part III.

Part III Foreign Accounts and Trusts

(See instructions on back.)

You must complete this part if you **(a)** had over $1,500 of taxable interest or ordinary dividends; **(b)** had a foreign account; or **(c)** received a distribution from, or were a grantor of, or a transferor to, a foreign trust.

	Yes	No
7a At any time during 2010, did you have an interest in or a signature or other authority over a financial account in a foreign country, such as a bank account, securities account, or other financial account? See instructions on back for exceptions and filing requirements for Form TD F 90-22.1		
b If "Yes," enter the name of the foreign country ▶		
8 During 2010, did you receive a distribution from, or were you the grantor of, or transferor to, a foreign trust? If "Yes," you may have to file Form 3520. See instructions on back		

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 17146N **Schedule B (Form 1040A or 1040) 2010**

Exhibit IIIc

SCHEDULE B (Form 1040A or 1040) Department of the Treasury Internal Revenue Service (99)	Interest and Ordinary Dividends ▶ Attach to Form 1040A or 1040. ▶ See instructions on back.	OMB No. 1545-0074 2010 Attachment Sequence No. 08
Name(s) shown on return		Your social security number

				Amount	
Part I Interest (See instructions on back and the instructions for Form 1040A, or Form 1040, line 8a.) **Note.** If you received a Form 1099-INT, Form 1099-OID, or substitute statement from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.	1	List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see instructions on back and list this interest first. Also, show that buyer's social security number and address ▶	1		
		UBS Financial Services, Inc. - OID		307	50
		UBS Financial Services, Inc. - Interest		5391	79
		Subtotal		5699	29
		ABP Adjustment - OID		-307	50
		ABP Adjustment - Interest		-292	99
	2	Add the amounts on line 1	2	5098	80
	3	Excludable interest on series EE and I U.S. savings bonds issued after 1989. Attach Form 8815	3		
	4	Subtract line 3 from line 2. Enter the result here and on Form 1040A, or Form 1040, line 8a ▶	4	5098	80

Note. If line 4 is over $1,500, you must complete Part III.

				Amount	
Part II Ordinary Dividends (See instructions on back and the instructions for Form 1040A, or Form 1040, line 9a.) **Note.** If you received a Form 1099-DIV or substitute statement from a brokerage firm, list the firm's name as the payer and enter the ordinary dividends shown on that form.	5	List name of payer ▶	5		
	6	Add the amounts on line 5. Enter the total here and on Form 1040A, or Form 1040, line 9a ▶	6		

Note. If line 6 is over $1,500, you must complete Part III.

			Yes	No
Part III Foreign Accounts and Trusts (See instructions on back.)		You must complete this part if you **(a)** had over $1,500 of taxable interest or ordinary dividends; **(b)** had a foreign account; or **(c)** received a distribution from, or were a grantor of, or a transferor to, a foreign trust.		
	7a	At any time during 2010, did you have an interest in or a signature or other authority over a financial account in a foreign country, such as a bank account, securities account, or other financial account? See instructions on back for exceptions and filing requirements for Form TD F 90-22.1		
	b	If "Yes," enter the name of the foreign country ▶		
	8	During 2010, did you receive a distribution from, or were you the grantor of, or transferor to, a foreign trust? If "Yes," you may have to file Form 3520. See instructions on back		

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 17146N **Schedule B (Form 1040A or 1040) 2010**

Blank worksheets

Worksheet to determine amortized acquisition premium

Step 1	Enter your purchase price (minus accrued interest paid).	
Step 2	Enter the adjusted issue price. (Appears in the column labeled "Beginning Adjusted Issue Per 1,000." Remember to multiply this figure by the number of $1,000 bonds you hold of this instrument.)	
Step 3	Subtract the adjusted issue price from your purchase price. (The difference is your total acquisition premium.)	
Step 4	Enter the stated redemption price at maturity.	
Step 5	Enter the adjusted issue price from Step 2.	
Step 6	Determine the amount of unaccrued OID remaining at the time of purchase by subtracting the adjusted issue price from the stated redemption price at maturity.	
Step 7	Determine the fixed fraction by dividing the amount from Step 3 by the amount from Step 6.	%
Step 8	Enter the “Original Issue Discount for 2010” from your Consolidated Form 1099-OID (if you are holding more than one REMIC regular interest or CDO, refer to the statement entitled Original Issue Discount Details Reported on Form 1099-OID for the specific amount of OID for this instrument). Report this amount on Schedule B.	
Step 9	Multiply the fixed fraction in Step 7 by the OID amount in Step 8. Report this as a negative amount used to adjust the OID reported from Step 8.	$

Worksheet to determine accrual of market discount

Step 1	Enter your purchase price (minus accrued interest paid).	
Step 2	Enter the adjusted issue price. (Appears in the column labeled "Beginning Adjusted Issue Per 1,000." Remember to multiply this figure by the number of $1,000 bonds you hold of this instrument.)	
Step 3	Subtract your purchase price from the adjusted issue price. (The difference is your total market discount.)	
Step 4	Multiply your market discount by the market discount fraction in accrual period 1. (See Exhibit I. The product is your period accrued market discount.)	
Step 5	Subtract the period accrued market discount from your total market discount. (The difference is your remaining market discount.)	
Step 6	Repeat Step 4 and Step 5 using the market discount fraction and your remaining market discount for each subsequent period.	
Step 7	This process should continue until the earliest of the following: maturity, disposition or year-end. If year-end, compute Step 5 and retain for 2011.	
Step 8	Compute your total accrued market discount for 2010.	
Step 9	If you have received partial payments of principal, add the period market discount accruals for periods up to and including those in which you received a partial payment of principal. You will be required to report this as interest during the 2010 calendar year. If you did not receive any principal payments, you may elect to include this market discount accrual in your taxable income currently or you may defer reporting until disposition or maturity. Therefore, it is strongly recommended that you consult your tax advisor before making this election.	

Worksheet to determine amortized bond premium

Step 1	Enter your purchase price (minus accrued interest paid).	
Step 2	Enter the stated redemption price at maturity on the date of purchase.	
Step 3	Subtract the stated redemption price at maturity from your purchase cost. (The difference is your total bond premium.)	
Step 4	Multiply this amount by the market discount fraction in accrual period 1. (See Exhibit I. The product is your period amortized bond premium.)	
Step 5	Subtract the period amortized bond premium from your total bond premium. (The difference is your remaining bond premium.)	
Step 6	Repeat Step 4 and Step 5 using the market discount fraction and your remaining bond premium for each subsequent period.	
Step 7	This process should continue until the earliest of the following: maturity, disposition or year-end. If year-end, compute Step 5 and retain for 2011.	
Step 8	Compute your total amortized bond premium for 2010.	
Step 9	If you have bond premium, you can immediately offset the OID from Line 1 of your Consolidated 1099-OID. You may elect to amortize bond premium currently to offset a portion of your interest or you may defer reporting until disposition or maturity. Therefore, it is strongly recommended that you consult your tax advisor before making this election.	$

Glossary

Accrual period
An accrual period is an interval of time over which the accrual of interest income and OID is measured. Accrual periods may be of any length, provided that each accrual period is no longer than one year and any payment date occurs at the beginning or end of an accrual period.

Adjusted issue price
Issue price plus all OID included in income prior to the current accrual period minus any payments received other than a payment of qualified stated interest.

Bond premium
Bond premium is the purchase price of the bond minus the par or face amount payable on maturity of the bond.

Collateralized debt obligation (CDO)
CDOs are investment certificates entitling the investors to a fixed principal amount and, typically, a fixed or floating rate of interest, backed by a pool of debt instruments held in a trust or other investment entity. For federal tax purposes, CDO investments are treated as debt instruments.

Fixed fraction
The fixed fraction is a method used to amortize acquisition premium. The numerator is the acquisition premium paid and the denominator is the total unaccrued OID remaining at the time of purchase. The accrued OID for the current year is then multiplied by the fixed fraction to determine the amount of amortized acquisition premium available to offset accrued OID for the year.

Market discount
Market discount is generally the adjusted issue price (defined above) of a debt instrument minus its purchase price in the secondary market.

Original issue discount (OID)
OID is a debt instrument's stated redemption price at maturity minus its issue price. In general, the Internal Revenue Code requires that this amount be accrued over the life of the debt instrument.

Qualified stated interest
Qualified stated interest is interest unconditionally payable in cash or in property or that will be constructively received at least annually at a single fixed or floating rate.

Real estate mortgage investment conduit (REMIC)
A REMIC is a special tax vehicle available for an entity holding a fixed pool of mortgages (or a segregated pool of mortgages within an entity) that issues one or more classes of "regular interests" and a single class of residual interest. Like non-REMIC CDOs, REMIC regular interests are treated as debt instruments for tax purposes.

Stated redemption price at maturity
Stated redemption price at maturity is the amount payable at maturity, plus interest (other than qualified stated interest) and all other amounts.

Yield to maturity (bond equivalent yield)
Yield to maturity (bond equivalent yield) is the rate of return on a long-term investment taking into consideration its purchase price and redemption value, the total amount of annual interest payments, the prepayment assumption and the time period until maturity. This is information you can obtain from your Financial Advisor upon request.

UBS Financial Services Inc.
UBS International Inc.
ubs.com/fs

110203-2770-002

UBS Financial Services Inc. and UBS International Inc. are subsidiaries of UBS AG.

UBS