

COST BASIS SUBCOMMITTEE
High Level Requirements

I – Broker Passing Cost Basis to Issuer / Agent – Shares in brokerage account, certificate or DRS being issued

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I – Broker Passing Cost Basis to Issuer Agent

1) WT Process (Request to issue certificate or DRS)

- A) **FAST Withdrawals-by-Transfer (WTs)** – Customer requests a DRS position or a certificate from the broker on an issue that is FAST eligible at DTCC - Withdrawals-by-Transfer (WT) process

Broker

A WT (request for DRS or certificate) is submitted via the NWT1 function on PTS, or Auto Night Withdrawal for transfer on PBS or via the CF2WTC file. In all cases it contains a 37 byte Unique ID Number. Moving forward (and it could be done now) the broker should assign the unique ID as follows:

- » Julian Date (5), Transfer Type (1), DTCC # (5), Account and reference # (up to 26)

DTCC

DTCC will pass the unique ID# to the transfer agent of issuer of service provider via RSATFX file

Issuer / Agent

Capture the unique ID# as it will be the same ID the participant/broker sends when sending the tax lots on the CBRS file

Broker

Upon notification from DTCC that the transfer is complete, participants (brokers) would use the 37 character Unique ID on CBRS when sending the cost basis data to the transfer agents.

DTCC CBRS Enhancement

- » Identify the new WT process type
- » Allow for the new unique ID
- » Identify the issuer of Agent by the CUSIP number when routing the CBRS file

Since the broker does not currently pass the agent information, DTC will use the CUSIP on the CBRS file to identify the agent or issuer when passing the file

NOTE: DTC C and transfer agents need to analyze if receiving Non-FAST WTs via file would provide any benefits.

Issue raised 8/26 : Lots need to be maintained at the certificate level how do we assign lots to breakdown.

I – Broker Passing Cost Basis to Issuer Agent (Con't.)

- B) **Non-FAST Withdrawal by Transfer (WTs)** – Customer requests a certificate from the broker on an issue that is Non-FAST eligible at DTCC - Withdrawals-by Transfer (WTs) process for Non-FAST WTs

Broker

A WT (request for DRS or certificate) is submitted via the NWT1 function on PTS or Auto Night Withdrawal for transfer on PBS or via the CF2WTC file. In all cases it contains a 37 byte Unique ID number. Moving forward (and it could be done now) the broker should assign the unique ID as follows:

- » Julian Date (5)
- » Transfer Type (1)
- » DTCC # (5)
- » Account and reference # (up to 26)

DTCC

DTC will print the unique ID on the transfer instructions (transfer assignment control form/fanfold) that accompanies the Cede & Co. certificate and shipment control list (SCL) to the transfer agent.

Issuer / Agent

Capture the unique ID as it will be the same ID the participant/broker sends on the CBRS file

DTCC

- » Identify the new WT process type
- » Allow for the new unique ID
- » Identify the issuer or Agent by the CUSIP number when routing the CBRS file

Since the broker does not currently pass the agent information, DTC will use the CUSIP on the CBRS file to identify the agent or issuer when passing the file

NOTE: A recommendation was made to consider having DTCC electronically pass the unique ID in advance or at the same time as the paper. Also, DTC and Transfer agents to review if receiving Non-FAST WTs via file would provide any benefits

I – Broker Passing Cost Basis to Issuer Agent (Con't.)

- 2) **Physical presentation to Agent from street-name to customer – Direct Presentations Transfer** – Customer requests a certificate from the broker on an issue that is not DTCC eligible

Unique ID number

Julian Date 5 / Transfer type 1/ DTCC # 5 / account and reference # up to 26 characters

Broker / DTCC (If outsourced)

Create fanfold that instructs the issuer/agent to issue a certificate in customer name. The broker will print the unique ID on the transfer instructions (fanfold) that accompanies the street-name certificate and mail both to the issuer/transfer agent

Create a fanfold (transfer instruction) with two unique IDs that accompanies the customer name certificate and mail both to the issuer/transfer agent

One unique ID identifies cancellation of the certificate the agent needs that to pass back the basis on the cancelled certificate.

One unique ID identifies the issuance of the new certificate; the broker will need that ID to pass with the cost basis for the new account at the issuer/agent. If the new account is in broker name the cost basis should be passed as 0 and uncovered.

Issuer / Agent

Save the Unique ID number as it will be the same ID the participant/broker sends on the CBRS file

Broker

Upon receipt of the new certificate from the transfer agent/issuer, participants (brokers) would use the 37 character unique ID on CBRS when sending the cost basis data to the transfer agent.

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DTCC

If the securities are DTCC Custody Only eligible, DTCC will use the CUSIP on the CBRS file to identify the agent of issuer when passing the file.

If the securities are NOT DTCC eligible, the broker will have to identify the agent on the CBRS file so that DTCC can forward the file on to the agent.

If the transfer agent has a relationship with DTC, but DTCC does not maintain the CUSIP number the submitting broker will have to provide the DTC transfer agent number

If a transfer agent has no relationship with DTC or vice-versa, use paper to send the cost basis data or consider passing a routing location for the issuer or agent

II – Issuer / Agent Passes Cost Basis to Broker (customer name shares being transferred to a brokerage account)

- 1) **Certificate Deposit process (from customer name to street-name(DTCC))** – Customer brings certificate to broker to deposit in a brokerage account. The broker sends the certificate to DTCC.

Unique ID number

Julian Date 5 / Transfer type 1/ DTCC # 5 / account and reference # up to 26 characters

Issue 8/26: lots need to be held at the certificate and what if broker does not follow guidelines updates made below

Broker

- » For Branch deposits the broker needs to modify ARF to match the standard unique ID
- » The recommendation for DAMP is to limit one deposit per account this way certificates are not needed to pass an attempt to match.

DTC Step 1

- » The arf/deposit ID number is included on the deposit ticket. DTCC will print it on the SCL, under the appropriate line item.

Agent / Issuer

- » Create CBRS at the aggregate record but identify cost basis at the certificate level detail (provide certificate number so broker could match back if not a single account deposit)

Broker

- » May need to Unwind Unique ID to DAMP deposit anticipation file created or can match on the unique ID

NOTE: Since the broker # is in the unique ID DTCC will not have to recalculate where the deposit came from.

DTCC CBRS enhancements – need to maintain the certificate number and there may be multiple Tax lots at the certificate level

II – Issuer / Agent Passes Cost Basis to Broker – Shares in customer name being transferred to a brokerage account (Con't.)

- 2) **Physical Presentation to Agent/Issuer From Customer to Street-name**) e
the Customer brings certificate to broker to deposit in a brokerage account.
The broker sends the certificate directly to the Agent to be put in Broker
name.

Unique ID number

Julian Date 5 / Transfer type 1/ DTCC # 5 / account and reference # up to 26
characters

Broker

- » Create a fanfold that instructs the issuer/agent to issue a certificate in
broker name
- » Print two unique IDs on the transfer instructions (fanfold) that
accompanies the customer name certificate and mail both to the
issuer/transfer agent
- » One unique ID identifies cancellation of the certificate the agent needs
that to pass back the basis on the cancelled certificate.
- » One unique ID identifies the issuance of the new certificate, the broker
will need that ID to pass with the cost basis for the new account at the
issuer/agent. if the new account is in broker name the cost basis
should be passed as 0 and uncovered.

Agent – Issuer

- » Capture unique ID numbers for each transfer
- » Create CBRS at the aggregate record but identify cost basis at the
certificate level detail (provide certificate number and unique ID so
broker could match back)
- » The unique ID will tell the Issuer/Agent who to pass the cost basis.
- » Also create an anticipation of new basis for the account that is being
established.

Broker

Upon receipt of new certificate from the issuer /agent pass a CBRS file with the
unique ID and cusip

CBRS- will need to read the cusip to identify the agent/issuer. If DTCC does not
maintain that CUSIP the broker will need to apply a routing address. Does DTCC
need to route items they can not locate an agent

II – Issuer / Agent Passes Cost Basis to Broker – Shares in customer name being transferred to a brokerage account (Con't.)

- 3) **Physical presentation to Agent/Issuer - from customer to street-name and customer** – Customer brings 200 shares certificate to broker to deposit and sell 100 shares at the brokerage firm and gets 100 registered back to the customer. (this could be restricted)

Unique ID number

Julian Date 5 / Transfer type 1/ DTCC # 5 / account and reference # up to 26 characters

Broker

- » Create 2 fanfolds that instructs the issuer/agent to issue one certificate in Broker-name or DWAC and one certificate back to the customer
- » Anticipate cost basis back only on the broker-name or DWAC position.
- » Print the unique ID on the transfer instructions (fanfold) that accompanies the customer-name certificate and mail both to the issuer/transfer agent
- » Send certificate and instructions to the Agent.

Agent / Issuer

- » Capture unique ID for the transfer fanfold instructing issuance into broker name
- » Create CBRS record at the certificate # detail for the 200 shares, but only pass cost basis for only 100 shares issued into street-name
- » For the 100 shares issued into customer name the issuer/agen should continue to maintain the cost basis .

New Processing requirement

If the securities are DTCC eligible the agent should either tell the broker they must DWAC or set up a DRS account for customer and broker in an effort to dematerialize.

II – Issuer / Agent Passes Cost Basis to Broker – Shares in customer name being transferred to a brokerage account (Con't.)

4) Physical presentation to Agent/Issuer from customer – DWAC –

Customer brings 200 share certificate to a broker to deposit and sells 200 shares at the brokerage firm. Broker sends shares and request DWAC back.

Unique ID number

Julian Date 5 / Transfer type 1/ DTCC # 5 / account and reference # up to 26 characters

Broker

- » Create fanfold that instructs the issuer/agent to cancel certificate in customer name and DWAC the position
- » Print the unique ID on the transfer instructions (fanfold) that accompanies the customer-name certificate and mail both to the issuer/transfer agent
- » Send certificate and instructions to the agent.

Agent / Issuer Option 1

- » Capture unique ID for the transfer fanfold
- » Approve DWAC request
- » Create CBRS record at the certificate # detail for the 200 shares

Broker

Put DWAC request out on DTCC system with the same unique ID as item on fanfold.

Agent / Issuer Option 2

- » Capture unique ID for the transfer fanfold
- » Approve DWAC request
- » Create CBRS record from DWAC request and unique ID

II – Issuer / Agent Passes Cost Basis to Broker – Shares in customer name being transferred to a brokerage account (Con't.)

- 5) **Plan Administrator contacts broker to move shares from a plan to the brokerage account – DWAC** – Plan Administrator is requesting that shares move from the issuer or agent to a broker. This could be for employee stock purchase plans or a plan distribution. The communication starts at the plan administrator or agent.

Unique ID number (May not be used)

Julian Date 5 / Transfer type 1/ DTCC # 5 / account and reference # up to 26 characters

Plan Administrator

Communicate with agent/issuer to move shares

Communicate with broker to provide accounts and either cost basis or a unique ID

Issuer or Agent

Identify this transaction as not needing cost basis sent.

Broker

- » Receive list of account numbers and reference #s from issuer or agent to move shares into the brokerage account.
- » Request total shares via DWAC using unique ID Probably using Julian Date 5 / Transfer type 1/ DTCC # and some indication to say the transaction does not require passing of cost basis.

Agent / Issuer

- » Moves form treasury shares/ plan shares to broker via DWAC
- » Unless you are the administrator do not move cost basis

Plan Administrator

Establish unique ID with broker

Pass cost basis via CBRS using the unique Identifier and brokerage account

Alternative 2

Cost basis needs should be included on initial spreadsheet and somehow we denote the DWAC to this alternative process.

III – Issuer / Agent Passes Cost Basis to Broker – Shares in customer name being transferred to a brokerage account (Con't.)

- 6) **Broker request DRS position through PROFILE** – Customer requests 200 shares moved from DRS account to brokerage account to sell securities

Broker

- » Request shares via PROFILE using the new formatted unique ID number in the account number

Unique ID number

Julian Date 5 / Transfer type 1/ DTCC # 5 / account and reference # up to 26 characters

Agent / Issuer

- » Capture unique ID from Profile transaction
- » Approve DRS
- » Send DO to broker using the Unique ID (account number)
- » Send CBRS record using the unique ID (account number)

III – Issuer / Agent Passes Cost Basis to Broker – Shares in customer name being transferred to a brokerage account (Con't.)

- 7) **Customer request DRS position from Issuer/Agent** – Customer requests the issuer or agent moves from DRS account to brokerage account to sell securities

Agent / Issuer

- » Get customer account number and broker clearing number from customer
- » Review paperwork
- » Send DO to broker using the Unique ID (date & account number)

Unique ID number

Julian Date 3 account and reference # up to 26 characters

Broker

- » Capture unique ID from DO transaction
- » Create cost basis anticipation record from DO

Agent / Issuer

- » Send CBRS record using the unique ID (account number)

II –Broker Passes Cost Basis to Broker – Shares moved from one broker to another in the DTCC DO (Deliver Order) process

- 8) **Broker A submits a Delivery to Broker B using a DTCC DO.** – Customer request shares be moved from one broker to another same day either with or without cash.

Unique ID number for Cost Basis

In this case like in the ACAT process, DTCC will assign a transaction ID number that can uniquely identify the delivery. The number is 15 characters.

Broker A

Initiate the deliver order to DTCC and indicate if the transaction is eligible for cost basis movement (e.g not a trade or a stock loan return)

Broker B

Capture the DTCC unique ID and the cost basis indicator on the transaction or possibly on the DPTFPART file. If the cost basis eligible indicator is Yes expect either cost basis or a not covered transaction through CBRS.

Broker A

Once the transaction is complete pass the cost basis using the unique ID as the key field

DTCC

Consider adding the unique ID to the DPTF PART file
Add a new indicator for Cost basis transactions

NOTES

The reason we will use DTCC unique ID is because the DTCC field for account number is not long enough for the standard unique ID established with the issuers and agents.

The reason we need the cost basis Yes/ No indicator is because the industry is not consistent with the use of DO codes.

It is recommended that the deliverer Identify the types of movements that cost basis should pass and update those transactions consistently with a Y in the past cost basis field.

Appendix A – Common Enhancements

» We need an indicator on CBRS to determine scenario

» **Adjustments of mistaken cost basis data**

When a broker receives data that would ultimately change the basis of an item previously sent a correction CBRS entry should be sent to the contra-firm

- » A correction indicator at the lot and aggregate level should be required
- » The sender of basis would always be the party to issue the correction
- » Sender will use the same unique ID as original ID but noted at the aggregate level that this is a correction record
- » All of the lots must be passed again with a correction indicator at the lot level of the item
- » Recommendation is corrections should not be passed after 18 months

» **Cost Basis not received**

CBRS record when basis is not received?

DWAC

Enlarge t15 to 37 byte field