

Cost Basis Steering Committee Meeting Minutes

Date: June 22, 2010

Time: Noon – 2 p.m.

- I. Approval of June 8, 2010 meeting minutes
 - The committee approved the minutes as written

- II. Review new values in the Tax Lot Input Record
 - **Uncovered/Pending Indicator:** New Value: *Uncovered – reported by Transfer Agent*
 - The committee agreed to add this value
 - **Gifted or Inherited Indicator:** New Value: *Inherited then Gifted*
 - The committee decided this value is not necessary
 - **Final Date for changes to the record layouts: June 30, 2010**
 - The committee discussed the issue of changes to the record layouts. We decided that there needs to be a cut-off date, after which we cannot make changes. We agreed on a date of June 30, 2010. Between now and that date, committee members will meet with their respective groups to tell them about this final date, and to make a last call for changes
 - The review of the record layouts will focus on two topics
 1. Changes made since the record layouts were posted to dtcc.com on April 30, 2010
 2. Optional fields: which fields are truly optional, vs. which fields need rules to clarify when they are necessary (i.e. the *Original Acquisition Date for Wash Sale Adjustment* must be used when the lot is effected by a wash sale)

- III. Question about Broker receiving less money than expected because a Transfer Agent paid the taxes in a constructive receipt
 - Scenario:
 - Mandatory tender offer @ \$50 for 100 shares of ABC Co, effective date 12/1/2011.
 - Broker presents certificate for 100 shares on 1/10/12.
 - TA reports \$5,000 as gross proceeds on 2011 Form 1099-B due to constructive receipt rules.
 - Since registered holder not certified W-9, TA withholds 28% (\$1,400) and reports as "Federal tax Withheld" on 2011 1099-B.
 - Upon presentation, Broker expects to receive \$5,000 but only receives \$3,600.
 - We discussed this scenario, and Broker should know on constructive receipt jobs Broker will NOT do the 1099-B reporting. But they have to reconcile cash received vs. cash expected.

- Backup withholding does not affect cost basis reporting.
- In the constructive receipt scenario below, the TA will have the cost basis of the certificate and report it on the 1099-B.
- If the broker is reporting the \$5,000 in proceeds, then the TA will have to pass the basis on the certificate to the broker for reporting.
- Alternative explanation:
 - If a TA processes an exchange for Cash and Shares using constructive receipt on 6/1/2012, the TA will withhold the taxes and deliver them to the IRS as of 6/1/2012. They will also report and Gain or Loss at that time. The net funds and the new shares will be held on the TA's record until the shareholder sends in the new shares for exchange. If the shareholder delivers through the broker the broker DTC will receive the net funds and the FAST balance will be increased by the new shares.

IV. Next Steps

- Committee members will review the record layouts with their various sub-groups, including broker-dealer/transfer agent groups, broker-dealer working group, and the CBRS Working Group
- The next meeting will be on June 29nd from Noon – 2 PM eastern time. At this meeting the committee will review the changes suggested by the various working groups