

Cost Basis FAQ's

Q: Should I hold up a transfer if no cost basis is provided?

A: No, the transfer must be processed timely in accordance with SEC rules. If you are expecting cost basis and it is not received within 15 days, you should send a request to the contra party.

Q: Who sends cost basis to whom on a presentment of certificates for deposit, with subsequent transfer to the name of Cede and Co?

A: In this case, the agent will send cost basis information to the broker. Generally speaking, cost basis information should move in the same direction as the movement of the shares. Therefore, if a broker presents certificates to the agent for deposit and subsequent transfer to Cede and Co, the agent should provide the cost basis for the lots in those certificates to the broker, providing that they are covered, post effective date shares. If pre effective date shares, the agent should provide a transfer statement or CBRS record saying they are uncovered.

Q: In the above example, where do we get the cost basis?

A: You would have the basis on certificates that were issued from a broker in 2011. If the shares are purchased on the agent's books, in a Plan that does not meet the IRS definition of a DRP, the agent would have recorded the cost basis, after Jan 1, 2011. If the DRP does meet the IRS definition of a DRP the shares are not covered until 2012. You would also have received basis from your client on original issuances after Jan 1, 2011.

Q: Which employee awards are noncovered, and which are covered in 2011?

A: The vesting of restricted stock, restricted stock units, and performance share awards results in noncovered securities. The basis will usually equal the FMV on the vesting date, but it is not required to be tracked by the agent. Similar awards not requiring a cash payment are also noncovered, such as the exercise of stock-settled stock appreciation rights, and stock options exercised through a stock swap or net-settled exercises. Shares purchased through employee stock purchase plans, or option exercises where the exercise price is paid in cash, are considered covered.

Q: An account in a joint tenant registration is transferred to one of the tenants, or a third-party in single ownership. What happens to the cost basis of the covered shares?

A: 1) If the tenants are married, and this transfer is due to the death of one of the tenants, and they reside in a community property state, then 100% of the basis gets stepped up to the FMV on the date of death.

2) If the tenants are married, and this transfer is due to the death of one of the tenants, and they do not reside in a community property state, then 50% of the basis gets stepped up to the FMV on the date of death and 50% of the basis carries forward. This split is done for each covered lot in the account.

3): If the tenants are not married or if you don't know whether they're married, and the transfer is due to a death of one of the tenants, then the agent may (but is not required to) ask the tenant for the cost basis allocation to apply. If no response is received, the shares are noncovered.

- 4) If the tenants are married and divorce, the cost basis carries over to the single tenant(s).
- 6) If the change is from a joint to a single registration of one of the tenants, and both are living, carry over the cost basis.

New Questions from the Webinar on CBRS Web Direct of May 16 2011

Q. For tax lots, is the certificate number the incoming or outgoing certificate?

A: In general, agents will be entering certificate numbers into CBRS for certificate deposits, when the shares are to be transferred to Cede & Co. For this transaction, the certificates come in to the agent for deposit.

Q. I don't have a daily CBRS deposit file on my portal. Is that a problem?

A: You can get the daily deposit file by contacting DTC.

Q: How do we determine cost in dollars?

A: For post effective date shares, (equity shares issued after January 1, 2011). the agent can get the cost in different ways. If the shares were purchased on the agent's books, pursuant to a DRP or DSP, the agent will know the purchase price and cost. If the shares are transferred in from a broker by a WT (Withdrawal by Transfer) the broker must tell the agent the cost. If the broker does not, the agent must make one request for the cost. If the shares are newly issued, the issuer must provide the agent with the cost. You would then take the number of shares and multiply it by the price per share. If the shares are to be deemed a gift (because no information to the contrary was provided by the presenter) then you should follow the IRS FMV rules.

Q: What if we miss a day of information? How far back can we go for requests? Is there any way to go back to January 1, 2011 for old requests?

A: The CBRS system retains data for 25 days which can be researched. DTC informs us that for older data, agents must archive it themselves. It is not available through DTC.

Q: Is tax lot original unit price required if we provide tax lot current cost?

A. This is an optional field. You do not have to fill in the tax lot original unit price.

Q: Where do you find the system reject codes?

A: They are in the DTC CBRS User Guide, pages 23-24, available on the DTC, STA and SSA websites. Here is the link:

http://www.dtcc.com/products/documentation/cs/cbrs/CBRS_user_guide.pdf

We strongly suggest that everyone print out and read the User Guide, as it will answer most questions.

Q: How does a transfer agent request cost basis?

A: See Best Practices Section of CBRS User Guide.

Q: How will we know if there is more than one tax lot in the certificate?

A: Consult your system history records. If the Tax lot does not equal the Asset that moved to the broker, that means there is more than one tax lot.

Q: When does one use the original cost field vs the current cost field?

A: Equity agents should only use the current cost field. The original cost field is there for fixed income securities. For equity securities, the original cost can be modified by corporate actions. Brokers will only want to have the current cost.

Q: Is CBRS free or is there a cost?

A: CBRS is free if you have less than several thousand transactions per month. The formula is that they charge \$0.01 to \$0.05 for each transaction sent via CBRS but waive the fee if it is less than \$100 for the month.