IMPORTANT NOTICE
National Securities Clearing Corporation

DTCC®
The Depository Trust & Clearing Corporation

A#:	**6988**
P&S#	**6558**
Date:	April 30, 2010
To:	ALL PARTICIPANTS
Attention:	MANAGING PARTNER / OFFICER; OPERATIONS PARTNER / OFFICER; MANAGER CUSTOMER ACCOUNT TRANSFER DEPARTMENT; MANAGER MARGIN DEPARTMENT; MANAGER DATA PROCESSING DEPARTMENT; MANAGER MUTUAL FUNDS OPERATIONS; MANAGER CASHIERS DEPARTMENT
From:	Lydia Midwood
Subject:	ENHANCEMENTS TO THE COST BASIS REPORTING SERVICE

DTCC plans to change the current Cost Basis Reporting Service (CBRS), to help the industry comply with Internal Revenue Service (IRS) regulations that go into effect on January 1, 2011. CBRS user testing is scheduled to begin in **September 2010**. The enhanced CBRS system will go into production in **December 2010**. [1]

I. Enhancements to the Cost Basis Reporting Service (CBRS)

The Depository Trust & Clearing Corporation (DTCC) plans to modify the Cost Basis Reporting Service (CBRS), a system currently operated by the National Securities Clearing Corporation (NSCC). DTCC will enhance the service to enable firms to pass cost basis information on their securities transfers and facilitate users' compliance with applicable IRS transfer statement regulations. Broadly, these regulations established the cost basis reporting requirements which became law under the Emergency Economic Stabilization Act of 2008.

This is the first in a series of Important Notices providing details about the new CBRS. This Important Notice provides: a general overview of the anticipated enhancements to the service; associated technical specifications including editing criteria; and highlights of the anticipated input and output file formats.

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[1] Subject to approval from the U.S. Securities and Exchange Commission. Members are advised that the changes discussed below are mandatory for continued participation in the service as of the Effective Date.

II. CBRS Overview of Anticipated Changes

CBRS is currently associated with the Automated Customer Account Transfer Service (ACATS). After firms transfer assets via ACATS, firms have the option to use CBRS to pass cost basis information. Currently, only firms participating in ACATS have access to CBRS.

III. CBRS Eligibility

Each firm that participates in CBRS will be assigned a CBRS Account Number. Additionally, a CBRS eligible firm who is either a DTC or NSCC participant will be able to link their existing DTC or NSCC Account Number to this CBRS Account Number. CBRS data submitted by or to an ineligible firm will be rejected. Participants will be advised via a subsequent Important Notice as to the process of participating in CBRS.

To assist firms in identifying eligible users, a new CBRS Master File will be made available to firms on a daily basis. Firms will be able to use this file to assist in their transferring of cost basis data to significantly reduce or eliminate the cost basis records sent to ineligible receiving firms. A future Important Notice will describe this new CBRS Master File.

Note to current users: The ACATS Participant Cost Basis Eligibility Indicator field will be eliminated from the ACATS Master File, AutoRoute ID #02090068.

All assets are eligible for the submission of cost basis information.

IV. Input / Output Schedule

The CBRS input cutoff time will be 4:00 PM ET.

CBRS files received throughout the day will be held, and processed in an end-of-day batch. Although the published output timeframe is between 10:00 PM and 11:00 PM ET, DTCC may distribute the output sooner, starting as early as 5:00 PM ET. Output files will include accepted and rejected CBRS records, and these records will reflect unique Cost Basis Control Numbers.

V. CBRS Input Functionality

There will be two ways to input information into CBRS, through automated connections or through WebDirect. Users with automated capabilities will send a file via DataTrak (DataTrak SYSID #36708). CBRS will only use variable length files. There will be no fixed length input files.

The following points highlight input functionality in the Asset and Tax Lot Input record layouts:

- The Asset record will have four Record Content types (in the Record Content Indicator field): Original asset record, Corrected asset record, Firm reject record, Request record. The Tax Lot record will have two Record Content types: Original tax lot record, Corrected tax lot record.

- The sequence of the Original and Corrected Asset data in the Cost Basis input file must be the Asset record followed by at least one Tax Lot record. CBRS will reject back to the submitter any Asset record not followed by a Tax Lot record(s). Tax Lot records that do not follow an Asset record will be assigned a separate Cost Basis Control Number and rejected by the system.

- The record length of both the Asset and Tax Lot records will be 1,000 bytes. <u>This will be a change from the current system: the record length of the current Asset and Tax Lot records is 550 bytes.</u>

- Each Cost Basis record must have a Transfer Control Number. CBRS will reject any Cost Basis record that does not have a Transfer Control Number back to submitter.
  - The number in the Transfer Control Number field should be the same as the control number on the original security transfer, e.g., the ACATS Control Number for an ACATS transfer. Consistent use of these numbers will allow firms to reconcile the CBRS records to the security transfers in their systems.

- The Receiving Firm Number must exist on the CBRS Master File. CBRS will reject all records with invalid Receiving Firm Numbers.

- The Submitting Firm Number must exist on the CBRS Master File. CBRS will treat all records with invalid Submitting Firm Numbers as 'unknown transactions,' and will drop them.

- The new CBRS system will have a Transaction Type field. This field is required, and identifies the security transfer type for which the user is submitting cost basis.

- The new CBRS system will accept Asset and Tax Lot records that contain a user CUSIP (known as the ISIN Security Issue ID Number). User CUSIPs are defined as any CUSIP or ISIN not contained in DTCC's Security Master Files.

- The Asset share quantity (Total Position Quantity field on the Asset record) must be equal to the sum of the associated Tax Lot share quantities (Tax Lot Quantity field on the Tax Lot record). If the totals are not equal, CBRS will reject the record back to the submitter.

- For all Transaction Types, either the Date Transfer was Initiated or the Settlement Date of Transfer field is required.

- In the Position Code field, the value 'B' for Borrowed is only valid for a request record (Record Content Indicator 04 = Request record). A Borrowed position means that the delivery creates a short position on the cost basis submitter's books.

- The Certificate Number Prefix and the Certificate Number fields on the Tax Lot record are applicable to two transactions: 27 = Certificate Deposit and 41 = Direct Presentation. For these transactions, Certificate Number Prefix is optional, and Certificate Number is required.

- The Basis Shareholder Provided field on the Tax Lot record is required. This field enables the submitter to tell the receiver whether the cost basis is provided by the shareholder or not, or that the source is unknown.

- The Uncovered/Pending Indicator field enables the submitter to tell the receiver that the lot is not covered by the IRS regulations, or that basis information is Pending. The field is required if the Acquisition Date field is blank. If the Acquisition Date field is blank and this field is also blank, CBRS will reject the record.

- In the Gifted or Inherited Indicator field, the submitter can label lots that are either gifted or inherited. The Date of Gift and Fair Market Value as of Date of Gift fields should be populated only if the Gifted or Inherited Indicator identifies the lot as gifted.

- The Acquisition Date of Tax Lot field is the trade date or acquisition date of the lot. For lots affected by wash sales, this is the adjusted acquisition date. This date will be used to determine gain or loss, and a short term or long term holding period. **The submitter can use a date of 0001/01/01 for a lot acquired on various dates.**

- The Original Acquisition Date for Wash Sale Adjustment field on the Tax Lot record will be used only for wash sales. This value is the original trade date for a lot whose date in the Acquisition Date of Tax Lot field has been adjusted for wash sales.

- All amounts in the cost fields on both the Asset and Tax Lot records—Total Original Cost, Total Current Cost, Total Average Cost, Tax Lot Original Cost, Tax Lot Current Cost, and Tax Lot Original Unit Price—must be in US Dollars. The ISO Currency Code and Exchange Rate fields on the Tax Lot record let the receiver know whether the cost basis was on the submitter's books in a currency other than USD.

- ISO Currency Code is a required field. If the value in this field is not USD, the ISO Currency Code identifies the currency corresponding to the value in the Exchange Rate field. If ISO Currency Code is not USD, then the Exchange Rate field is required.

- Current CBRS users please note the following facts about the ISO Currency Code field:

  o The field is no longer on the Asset record, only the Tax Lot record.

  o The field no longer defaults to USD. The submitter must populate this field.

- The Exchange Rate field is the spot exchange rate as of the acquisition date of the tax lot. The rate is the amount of local currency equal to one dollar.

- Here is an example of how to populate the ISO Currency Code and Exchange Rate fields:

  The Acquisition date is 12/01/2009 and the currency of the lot is Japanese Yen, or ISO Currency Code JPY. On December 1, 2009, the Yen was trading at 86.4428 Yen to the US Dollar. Therefore, the correct value for the Exchange Rate field is 86,4428. (CBRS uses a comma to indicate a decimal point.)

- Zero Basis Indicator requires that the submitter further define the value in the Tax Lot Current Cost field, under certain conditions. This field is required when the Tax Lot Current Cost is zero or blank. Definitions for the values are below.

  o 01 = True Zero is valid if Tax Lot Current Cost is zero. In this case, the submitter is telling the receiver that the current cost of the lot is actually zero.

  o 02 = Unknown is valid if Tax Lot Current Cost is either zero or blank. In this case, the submitter is telling the receiver that the current cost of the lot is unknown.

- The Number of Most Recent Corporate Action field is the identification number of most recent corporate action applied to calculate basis. The format is year the return is filed, followed by a three digit sequential identification number. Example: 2013003 signifies the third issuer return regarding a corporate action reported in 2013.

- For all types of assets except options (Asset Category = 'OPT') and for all Transaction Types except 41 = Direct Presentation, CBRS establishes the association between the Asset and the Tax Lot record when the contents of these fields on the two records are equal: Control Number, Receiving Firm Number, Receiving Firm Identifier, Receiving Firm Identifier Type, Submitting Firm Number, Submitting Firm Identifier, Submitting Firm Type, Receiving Firm Customer Account Number, Submitting Firm Customer Account number, ISIN Country Code, ISIN Security Issue ID and ISIN Security Check Digit.

- For option assets, CBRS establishes the association between the Asset and the Tax Lot record when the contents of these fields on the two records are equal: Control Number, Receiving Firm Number, Receiving Firm Identifier, Receiving Firm Identifier Type, Submitting Firm Number, Submitting Firm Identifier, Submitting Firm Type, Receiving Firm Customer Account Number, Submitting Firm Customer Account number, Put/Call Indicator, Option Symbol, Option Expiration Date, Option Strike Price Integer and Option Strike Price Decimal.

- For Transaction Type 41 = Direct Presentation when the asset is not an option, CBRS establishes the association between the Asset and the Tax Lot record when the contents of the Control Number, Receiving Firm Number, Receiving Firm Identifier, Receiving Firm Identifier Type, Submitting Firm Number, Submitting Firm Identifier, Submitting Firm Type, Receiving Firm Customer Account Number, Submitting Firm Customer Account number, ISIN Country Code, ISIN Security Issue ID and ISIN Security Check Digit of the two records are equal, unless ISIN Security Issue ID is blank. In this case, CBRS will use the Asset Description instead of the ISIN Country Code, ISIN Security Issue ID, and ISIN Security Check Digit to associate the Asset and Tax Lot record.

- All input fields must contain printable and allowed characters; otherwise they will be overlaid with asterisks, '*', and CBRS will reject the record. The CBRS printable and allowed characters are all lower/upper case letters and numbers, and certain symbols.

- The Quantity fields on both the Asset and Tax Lot records will support four decimal places. After four decimal places, CBRS will truncate the quantity fields.

- The Cost fields on both the Asset and Tax Lot records will support up to two decimal places. After two decimal places, CBRS will truncate the cost fields.

- Notes to current CBRS users:
  - The Adjusted Cost fields on both the Asset and the Tax Lot records have been renamed Current Cost.
  - The Partial Cost Indicator field on the Asset Record has been renamed Disposition Method Used.
  - The Cash/Margin/Short Indicator field has been removed from both the Asset and Tax Lot records.

VI. CBRS Output Functionality

Firms will receive a variable length Machine Readable Output (MRO) file via AutoRoute (AutoRoute Product ID #02400264). A download of CBRS MRO files will be available through WebDirect. Firms using WebDirect will be able to download the CBRS output file to Excel.

The CBRS output file will have three main components. The first component will be a set of CBRS system-generated output fields. The second component will be a set of status fields for the Asset and Tax Lot records received from the input file. The third component will be the actual Asset and Tax Lot data fields that contain the cost basis information validated by the CBRS system. CBRS will return the Asset and Tax Lot records to firms in the same sequence CBRS received them: Asset record first, and then all of the associated Tax Lot records.

- CBRS will send all accepted cost basis data to eligible recipients. CBRS will validate each field to ensure that it meets the established validation rules. CBRS will pass the cost basis data to the receiving firms and will not verify the accuracy of the data submitted.

- CBRS will return rejected transactions only to the submitting firm. Transactions dropped as 'unknown' will not be returned to the submitter.

- CBRS will assign a Cost Basis Control Number that will uniquely identify each Asset and associated Tax Lot record(s). This number will appear only on the Cost Basis Output sent to each firm. The Cost Basis Control Number format will be CCYYDDDCB (where CB stands for Cost Basis) followed by an eight digit number.

- CBRS will assign the Cost Basis Control Number to each submitted asset. All Tax Lot records associated with a particular Asset will have the same Cost Basis Control Number as that Asset.
  - The only exception will be when a firm submits Tax Lot record(s) without a corresponding Asset record. In this case CBRS will assign a separate Cost Basis Control Number to each Tax Lot record, and then will reject it.

- CBRS will also assign a unique Cost Basis Control Number to rejected Cost Basis records (Asset and their associated Tax Lot records) for identification purposes.

- Firms can use the Cost Basis Control Number to uniquely identify an Asset and its associated Tax Lot record(s); or firms can disregard this field and use the Transaction Type, Control Number and ISIN Security ID Number (CUSIP) to uniquely identify the Asset and Tax Lot records.

- The Cost Basis Output will contain System Action Codes. These codes are:
  - 1 = System Accepted - Transaction submitted correctly
  - 2 = System Modified - Transaction submitted correctly and modified by CBRS
  - 3 = System Rejected - Transaction submitted incorrectly

- CBRS will use the two fields to define the error on a record: the System Action Code field and the System Reject Reason field.
  - The System Action Codes will be in the beginning portion of the output record of both the Asset or Tax Lot record. The system action code field will indicate if each record on the input file was accepted, rejected, or modified.
  - The System Reject Reason field will identify the reason that caused CBRS to reject the record(s).

- If the System Action code is a '3', the System Reject Reason field will indicate the applicable reason. Users can find the list of System Reject Reasons in the CBRS Output record layout.

- **If CBRS rejects an Asset record, it will also reject all corresponding Tax Lot records. If CBRS rejects one Tax Lot record, it will also reject all of the Tax Lot records and the associated Asset record.**

- All Output Cost Basis Asset and Tax Lot records will contain a set of one-byte fields for indicating the status of each of the input fields. The values will be: 0 = Valid; 1= System Changed; 2 = Error; [space] = no change (if a firm has spaces in an optional field that does not have a default value, the status for that field will be a space).

- On both the Asset and the Tax Lot records, the Quantity field will support up to four decimal places. The Cost fields will support up to two decimal places.

VII. User Testing

CBRS user testing is scheduled to begin in September 2010. DTCC will make the Participant Service Environment (PSE) available for an extended period of time. This will allow users to test their connections and system functionality before going live in the production environment. Users will be able to test data input and output through both automated connections and WebDirect.

Future Important Notices will describe user testing set-up, connectivity, and testing process details.

VIII. Additional Information

There will be a webcast on the DTCC website which reviews the changes to the record layouts. Later in 2010, DTCC will provide web-based training for those users planning to connect to the system via WebDirect. You can obtain complete versions of the CBRS file formats at http://www.dtcc.com/products/cs/equities_clearance/cbrs.php.

A copy of this Important Notice can be obtained from NSCC's web site at http://www.nscc.com in the Important Notice section. If you have questions regarding CBRS, please contact your DTCC Relationship Manager or the Enterprise Service Center at 888-382-2721, option 6, then option 7, then option 2.