



#:	CBRS001.22
Date:	January 5, 2022
To:	All Cost Basis Reporting Service (CBRS) users
From:	Product Management
Subject:	Cost Basis Reporting Service Best Practices Reminder

DTCC along with the industry has made changes in an effort to align the CBRS Best Practices with the current [CBRS Supplemental User Guide](#)-Manual Transfer Specific Fields (5.5.1 f.). The Alternative Control Number Field on the CBRS Asset & Tax Lots Records is now an **OPT (Optional)** field for all CBRS Transaction Types. This will assist in the facilitation of cost basis transfers for trailing dividends on [Manual Mutual Fund Transfers \(Transaction Type 57\)](#)¹. Previously this field was only allowed for Transaction Types: **46- Fund to Firm Mutual Fund Transfer, 51- Firm to Fund Mutual Fund Transfer, 58- AIP**. This functionality is currently available in production.

With the help of the industry, DTCC has also compiled a list of problematic fields and common issues. Additional information about CBRS and Best Practices can be found in the [CBRS User Guide](#).

Field Specific Best Practices

Transfer Control Number (TCN): An association between the Asset (A) and the Tax Lot (T) records is established when the contents of the Control Number of the two records are equal. TCN also allows firms to match the cost basis information with the correct assets in clients' accounts.

- The TCN for DRS transactions should be the value populated in the Account number field on the DRSPRO file ([DRSPRO Record Layouts](#)). This is a 37-byte field but since the TCN field on CBRS is a 30 byte field, only the first 30 bytes of the Account number field should be populated. The best practice is to populate this field with the client account number followed by a unique identifier, again, being limited to 30 characters.
- All tax lots for a single asset transfer should be grouped together under one asset record on CBRS. If there is ever a reason for different tax lots for the same asset transfer to be sent separately, each separate record should include the same TCN, based on the best practices for that asset type.

Exchange Rate: This is the spot exchange rate used when converting the Tax Lot Current Cost of foreign securities to the U.S. Dollar Equivalent (USDE). The rate is the amount of local currency equal to one

1. For Best Practice on how to transfer manually trailing dividend, please see Trailing Dividends Best Practices-F55 Activity Record.

dollar. This is the exchange rate used to convert the original cost. **For any asset transfers of securities held in a foreign currency, all monetary values (e.g. original cost, current cost, bond premium, etc.) should be denominated in USD.**

Current Cost Basis: This should be the original cost basis plus any required adjustments made as of the settlement date of the transfer. This should *not* include bond premium that has accrued but is not yet applied to cost basis. A number of firms are incorrectly providing cost basis adjusted through to the transfer date on bonds purchased with bond premium.

Tax Lot Original Unit Price: This field is essential for the transfer of mortgage-backed securities (MBS). MBS are not covered securities but most firms maintain cost basis on these instruments and provide transfer statements when these assets transfer. Because the original and current cost for MBS is a combination of the factor on the acquisition date, the factor as of the date of the transfer (reflecting the amount of principal paid down on the instrument) and market discount / bond premium, it is only possible to know whether the instrument has market discount or bond premium (and how much) by knowing the original unit price.

Bond Premium: This should be the amount of bond premium by which the current cost basis has been adjusted (unless a holder has notified a broker that it has not elected to amortize bond premium). Amortizable bond premium is an offset to qualified stated interest and reduces cost basis as each payment of qualified stated interest is made. In practice, some firms appear to be erroneously populating this field with the amount of bond premium that has accrued through the settlement date of the transfer, rather than the last date on which qualified stated interest was paid.

Last Adjustment Date: This field is to be populated with the date of the last adjustment to cost basis for the tax lot for market discount, OID (Original Issue Discount), acquisition premium or bond premium. Market discount, OID and acquisition premium accrue and are applied to cost basis daily so generally the Last Adjustment Date in these cases is the settlement date of the transfer.

If a holder has elected to amortize bond premium, the bond premium would be calculated on a constant yield basis but would reduce cost basis as each payment of qualified stated interest is made. Therefore, for a fixed income security with bond premium, the Last Adjustment Date field is the date of the last interest payment. Some firms, however always populate this field with the settlement date of the transfer, even for bonds with bond premium.

Settlement Date: Settlement date of the original acquisition for the Tax Lot being transferred. This field is to be the settlement date on which the tax lot was acquired by the client. In many cases, firms are erroneously populating this field with the settlement date of the transfer. The field is only required for covered tax lots of debt instruments. Note that the settlement date of the transfer is included in the transfer record on the CBRS Asset file so there is no need for this information on the tax lot file.

General Best Practices

DTCC would also like to remind firms of a few general Best Practices that should be followed when sending cost basis.

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- Cost basis transfer statements are required for transfers of covered securities, even if some or all of the shares are noncovered. In this case, the transfer statement may simply indicate that the security is noncovered.
- Transfer statements are required unless the assets are being delivered to an exempt recipient account. If the account from which shares are transferring from is an exempt recipient account but will be transferred into an account for a recipient who is not exempt, a transfer statement is required.
- CBRS edits and rules are based on the cost basis regulations under the Internal Revenue Code. If CBRS rejects a record it means there is something incorrect within the data and likely it does not meet the requirements of the regulations. Therefore, it is imperative that firms DO NOT use that same rejected information to create a manual transfer statement. If the information was not accurate or complete enough to pass through the CBRS edits, then it will likely not be accurate or complete enough for the receiving firm to process when transposed to a manual transfer statement.
- DOD (Date-of-death) valuations or asset valuation reports do not contain much of the information required by the IRS for transfer statements and are not sufficient for providing cost basis on inherited assets. Transfer statements for inherited assets (original or corrected) must comply with all of the transfer statement requirements. Please see the CBRS or the Best Practice Guide to transmit a complete corrected cost basis record.

If you have questions about CBRS, please contact Connectivity Activation & Production Support (CAPS) at 1-888-382-2721, option 5, followed by option 5.

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