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| #: | CBRS002.2015 |
| Date: | April 16, 2015 |
| To: | All Cost Basis Reporting Service (CBRS) users |
| From: | Product Management |
| Subject: | CBRS Phase 5 Announcement |

The Cost Basis Reporting Service (CBRS) will be making changes to align with the recently published Internal Revenue Service (IRS) revised regulations applicable to covered fixed income and options.

The CBRS service will be adjusted as follows:

1. Remove the field supporting the fixed income election for treating **Interest as Original Issue Discount (OID)**.
2. Insert an edit to verify that the **Last Adjustment Amount** field is populated when the asset category is equal to a covered fixed income
3. Add a field to the end of the layouts, called **Prior Year Mark to Market**, for the specific use of reporting 1256 options.

The **Interest as OID** field is no longer needed on the Tax Lot Input Record; therefore position 769 will revert to filler.

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|---------------|---|-----|-----|-----|-----------------|---|
| FILLER | 1 | 729 | 729 | A/N | COND REQ | FIELD default will be blank. If a value is submitted it will reject. |
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The **Last Adjustment Amount** field of the Tax Lot Record will add a conditional requirement to be populated if the asset category is a covered fixed income.

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|-----------------------------|---|-----|-----|-----|---------------------------|--|
| Last Adjustment Date | 8 | 803 | 810 | A/N | OPT COND | <p>Date of last interest accrual for purposes of calculating the current cost of a fixed income security. This field is required for covered fixed income assets submissions.</p> <p>Allowed field for Asset Category: CDCP = CD or Commercial Paper CORP = Corp Bond, FDEB = Foreign Debt, GOVT = US Govt. and Govt. Agency, MBS = Mortgage backed MUNI = Municipal Bonds, or ZERO = Zero Coupon Bonds</p> <p>Field should be blank for any other Asset Category, otherwise rejected.</p> <p>Format: CCYYMMDD</p> <p>If submitted, date must be a valid calendar date. May be spaces or valid calendar date. Zeroes are not a valid value</p> |
|-----------------------------|---|-----|-----|-----|---------------------------|--|

In order to provide better compliance with the January 1, 2017 requirements for IRS regulations about the reporting of cost basis on 1256 options, the **Prior Year Mark to Market** field will be added to the Tax Lot Record. When cost basis for covered 1256 options are submitted, the **Prior Mark to Market** amount is required to be populated.

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|----------------------------------|----|-----|-----|-----|-------------|--|
| Prior Year Mark to Market | 17 | 845 | 861 | A/N | COND | <p>Section 1256 Options must be submitted on the transfer statement beginning 1/1/2016.</p> <p>Use only when Section 1256 options have transferred.</p> <p>When reporting cost basis of 1256 options:</p> <ul style="list-style-type: none"> - If the 1256 option was acquired prior to year end of the previous year, use the year end (fair market value). Year end fair market value used in reporting unrealized profit or loss on the open contracts in box 10 of the 1099-B - If the 1256 option was acquired in the same year as the transfer, populate the Prior Year Mark to Market with zero. <p>The asset category must equal options for 1256 option submissions, any other selection will reject when the "Prior Year Mark to Market" field is populated.</p> <p>Position of decimal denoted by a ',' (comma). Up to two decimal places will be supported before truncation occurs</p> |
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The aforementioned adjustments to the CBRS records impacts the CBRS web screens, as well as file input and output.

| File Name | Test # | Production# |
|-------------------------|----------------------|-------------|
| Tax Lot Input Record | DATATRAK SYSID | 46708 |
| CBRS Transaction Output | AutoRoute Product ID | 02980264 |

The updated record layouts and CBRS User guide have been posted to the website and DTCC Learning Center.

Additional Information

More details about the modification are described in the CBRS User Guide. Log on to the DTCC Learning Center by following the link below to learn more about the service.

<https://dtcclearning.com/learning/clearance/topics/cbrs.html>

Time Line

Client testing for the changes specified in this notice will be available in Quarter 3, 2015.
Production Implementation will be scheduled for Quarter 4, 2015.

If you have questions about CBRS, please call your Relationship Manager or Customer Support at 888-382-2721, option 5, followed by option 1.

Janice DiTore
Director, Product Management