

Notice to Members

JUNE 2004

SUGGESTED ROUTING

Legal & Compliance
Operations
Registered Representatives
Senior Management

KEY TOPICS

Cost Basis Information
Rule 2110

GUIDANCE

Cost Basis Information

Members' Obligations with Respect to the Transfer of Cost Basis Information

Executive Summary

It has come to NASD's attention that some members may be purposely interfering with the transfer of cost basis information for customers who transfer their accounts to another firm and ask for their cost basis information to be transferred to the new firm. The purpose of this Notice is to remind members that impeding the transfer of cost basis information upon customer request violates NASD Rule 2110, which requires members, in the conduct of their business, to observe high standards of commercial honor and just and equitable principles of trade.

Questions/Further Information

Questions concerning this *Notice* generally may be directed to Shirley H. Weiss, Associate General Counsel, Office of General Counsel, Regulatory Policy and Oversight, at (202) 728-8844.

Discussion

Customers need cost basis information to compute gains and losses for tax purposes. Although this information is reported on customer confirmations and account statements, customers who have not kept their confirmations and statements may be unable to gather this information themselves. Thus, some customers may rely on their firms to recreate this information as needed. Customers may have problems in accessing cost basis information when they move their

accounts to another firm. Although the customer's assets may be electronically moved to his or her new firm through the National Securities Clearing Corporation's (NSCC) Automated Customer Account Transfer Service (ACATS), ACATS does not transfer cost basis information.

Some firms participate in the Cost Basis Reporting Service (CBRS), another NSCC service. CBRS is an automated system that gives brokerage firms the ability to transfer customer cost basis information from one firm to another on any asset transferred through ACATS. If a firm participates in CBRS, or has otherwise retained cost basis information electronically and is able to transfer it to another firm "tape-to-tape," it should do so as part of the account transfer process. For any reason other than that a firm does not retain cost basis information in an electronic format that may be transferred, refusing to deliver or impeding the delivery of cost basis information harms the customer and constitutes conduct inconsistent with just and equitable principles of trade.¹ If electronically available in the delivering firm, the transfer of cost basis information to the receiving firm should occur as a matter of course as part of the account transfer process.

This *Notice* is not imposing a requirement on delivering firms to create this information upon customer request if the firm does not already maintain cost basis information in an electronically transferable form. This *Notice* serves only to remind members that if cost basis information is electronically available for transfer, and the customer has decided to change firms, it is a violation of Rule 2110 for a member to refuse to transfer the information upon request or take any steps to interfere with its transfer to the customer's new firm.

Endnotes

- 1 A firm that retains cost basis information in an accessible format electronically or otherwise is also expected to furnish such information to a customer upon request.

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