

## Cost Basis Steering Committee Meeting Minutes

Date: September 24, 2009

Time: 10:00 a.m. – 3:00 p.m. eastern time

### Meeting Attendees

Jodi Baskin - Sungard

Ellen Bocina - NFS

Mary Rose Cascaes - Registrar & Transfer Company

Joe Clemente - DTCC

Louis Lepore - DTCC

Kevin McCosker - Pershing

Lydia Midwood - DTCC

Jeff Naylor - SunGard

Tom Sakaris - DTCC

Josephine Torelli - DTCC

### *Via Phone*

Peter Braden - Smart Consulting

Steve Callan – JP Morgan Clearing Corporation

Joan Diblasi - AFLAC

Brian Godfrey - Schwab

Anita Higgins - Trustmark

Amy Hubbs - Broadridge

Kathy Joaquin - ICI

Cynthia Jones - Securities Transfer Association

Joyce Rosen - DTCC

### I. Approval of August 12th Meeting Minutes

- The previous meeting minutes need to be revised to reflect that DTCC will only match CBRS records to ACATS records in the initial implementation of the new system. DTCC will not match CBRS records for Deposits, Withdrawals, Deliver Orders, or any other transactions except ACATS
- In addition to the match it performs today, DTCC will also validate the quantity field for ACATS
- Additional reconciliation services are out of scope for the initial implementation

### II. Committee Member Working Group Updates

- Transfer Agents met with the IRS a few weeks ago to discuss their concerns around current and future regulations. This led to further discussion amongst the committee about:
  - Clarification on whether a physical certificate presented to a transfer agent represents specific share lots; IRS said it does.
  - Whether an investor can opt out of the average cost accounting method

- De minimis standards for excluding certain transactions from wash sale requirements
  - Single or double category average cost accounting methods
- Bank and broker dealer group representatives discussed the passing of cost basis on DTC deliver orders
  - The committee is concerned that only one or two banks have been represented in industry discussions—it is important that banks understand the changes arising out of the legislation, and prepare to make these changes
  - DTC is exploring changes to its settlement system which include a “Y” or “N” indicator on DO records to indicate whether cost basis needs to be passed on the transaction, and providing a transaction ID number generated by the Inventory Management System (the IMS TID number)
- ICI has been discussing the processing of lots with unknown cost basis
  - The group has adopted this best practice: lots with unknown basis will be treated as if they have no cost and no age. The shares will be removed first regardless of the accounting method used on the account
  - ICI will create a best practices document and user guide that outline the best practices that the group creates, and explain the logic behind these practices
  - ICI has created a sub-group to discuss average-cost issues
- The IRS should be releasing its regulations soon: they have announced a date of mid-October, but the regulations may come out as soon as late September. The details of the comment period are unknown
  - Current regulations say cost basis should be passed using a “written statement.” DTCC may need clarification that the IRS approves the passing of cost basis electronically before proceeding with the changes to the CBRS system

### III. Timeline and Goals

- DTCC outlined a timeline for the committee to follow to develop the service in time for the January 1, 2011 deadline for equities
  - November 2009- January 2010: DTCC writes Business Requirements and issues Important Notice(s)
  - February-August 2010: DTCC development
  - September-December 2010: Internal testing at DTCC, and external testing with participants
  - January 2011: Implementation

## Appendix

### Parking Lot Issues

8/12/09

- Questions about the initial implementation: Sending correction, reject, and request messages
- CBRS needs to have a field that allows for the transmission of zero as a valid value
- Is the existing partial cost basis indicator field still needed on the input record layouts?

9/24/09

- The current CBRS A record has three fields—*Total Original Cost*, *Total Adjusted Cost*, and *Total Average Cost*—that need further discussion. How do the different participants use these fields, which one(s) should be required?