Cost Basis Reporting System (CBRS) Steering Committee Meeting of August 12, 2009

There follows a summary of the second meeting of the CBRS Steering Committee, held at DTC on August 12, 2009. CBRS is an existing DTC system presently used by DTC Participants to pass cost basis following ACATS transfers, that is being readied to allow use by transfer agents (and other industry participants) in order to comply with the basis reporting regulations, as required by January 1, 2011, the effective date for equities. The meeting was attended by representatives of
DTC, the STA, the ICI, SIFMA, the SSA, Sungard and a number of brokers. The purpose of this Committee is to define for DTC high level business requirements to support cost basis reporting.

Issues Discussed:
- How and when should we involve state and federal agencies?
  - States have yet to define how the new regulations apply to them. They will create their own group if need be
  - Government agencies will not be a part of the initial implementation
  - States and governments will be impacted by cost basis legislation for unclaimed property and escheatments beginning in 2014
- Standardization of tape to tape conversions
  - Want to use the same record format for consistency, but the variety of conversion types requires different processes
  - Participants may need to transfer closed lots for mid-year conversions— sometimes the new firm does the 1099 reporting, sometimes the old firm does (this is an open issue with the IRS)
  - Conclusion: for tape to tape conversions, it may be optional to use CBRS
- The committee agreed to using a "parking lot" for certain topics. As we find issues that need further discussion in the future, we will add them to the parking lot.
- Issues surrounding the CBRS master file
  - The CBRS master file will have information about participants who are eligible to use the service, e.g. broker/dealers, banks, transfer agents, fund companies. The file will allow participants to know if the counterparty is eligible to receive a transaction before they submit it
  - Because of programming design requirements, CBRS needs a master file separate from the ACATS master file. The CBRS master file will include participants who do not use ACATS
  - Participants can choose whether to take the CBRS master file (just as they do today with ACATS). Some participants want it, others do not
- In the minutes from the July 22, 2009 meeting, under the *Scope* section, item #3 mentions that Firm to Fund mutual fund transfers outside of ACATS will be one of the transactions that triggers the need to pass cost basis information. Fund to Firm transfers should also be included on this list, as well as other depository deliveries

DTCC Business Case Update: DTCC has made the following assumptions for the January 2011 implementation:

- DTCC will add new fields to the current CBRS record layouts
- There will be new edit rules based on submitter type and transaction type
- DTCC will validate CBRS records only against ACATS transfers (like it does today). DTCC will add share quantity to the fields that are validated
- There will be no change to the existing CBRS input mechanisms: Datatrak, WebDirect input and uploads
- Output will be available via MRO and new web inquiry functionality, including the ability to export to Excel
- The master file will need identifiers for non-traditional entities who are not currently NSCC participants
  - Because the same number may be used by two different kind of participants (i.e. both a broker-dealer and a transfer agent may be #161), there will be two separate fields: type of participant; and participant number
  - DTCC will leverage existing codes as much as possible: if a transfer agent uses #161, we will use that same number as the tranfer agent's identifier in CBRS
- DTCC will use a "big bang" approach to changing to the new system: once DTCC switches over to the new record layout format, the old record format will not be supported
  - The committee had some concerns that participants would not be ready for the new format on 1/1/2011
  - The broker-dealer representatives on the committee said they will be ready. Some brokers have even expressed an interest in switching over before the deadline
  - The big bang approach reduces costs to both DTCC and the existing CBRS users, and ensures that both the deliverer and the receiver are using the same format
- Questions about the initial implementation: Sending cost basis correction records; sending reject and request messages*
  - Events that affect cost basis could happen months after sending the initial information
  - DTCC can provide the ability to send a cost basis record with an indicator to tell the receiver that it is a correction record
  - For cost basis corrected records, DTCC will always look to edit against the ACATS database, however, if the ACATS control number no longer resides in the database—on these records DTCC will continue to pass them
  - It is the responsibility of the delivering and receiving parties to store the original ACATS control number to identify the transaction
  - CBRS can have the functionality for the receiver to send a reject message to the deliverer. This message helps to alleviate the need

for a phone call when the receiver does not recognize the information sent from the deliverer

- CBRS can also have the functionality for the receiver to send a request message, to solicit cost basis information it is expecting from a deliverer

Open Issues:
- Is there a need for the transmission of zero as a valid value?
- Many would like to see CBRS perform a reconcilement of CBRS records compared to the share movements in other DTC systems. This is not currently available and cost and time limitations prevent DTC from including this in the initial implementation.