

## Cost Basis Steering Committee Meeting Minutes

February 7, 2012, Noon – 2 p.m.

### I. Approval of January 24, 2012 Meeting Minutes

- The committee approved the minutes as written.

### II. Issues discussed

- Lydia stated that DTCC published a revised version of the Tax Lot Input record layout, and also revised the Important Notice discussing the updated record layouts, #CBRS002.12. These layouts and Notice discuss the changes that will be implemented to production on July 27, 2012.
- The following are CBRS User Statistics as of January 31, 2012. Signed up to use the service: 31 banks, 93 broker-dealers, 534 funds, 80 transfer agents/issuers. Submitted data to Production in January 2012: 20 banks, 75 broker-dealers, 232 funds, 43 transfer agents/issuers.
- Cynthia asked when will the CBRS Working Group calls start discussing fixed income-related changes to the system, in order to invite transfer agents who may be interested in the changes. The group agenda is not fixed, so in theory a discussion could come up at any time if a caller brings up the subject. However, it is likely that in-depth discussions of fixed income CBRS changes will not occur until later in the year. The committee will revisit this question when the topic comes up on future Working Group calls.
- The committee discussed the new ACATS Asset Sequence Number field, and the fact that it is required for all records (original, corrected, firm reject, request) for Transaction Type 01 = ACATS. There are times when the submitter will not have the Number, such as, if a submitter is sending a corrected record in August for an original record sent in January. The committee decided to add a date to the requirement: the number should be required for 01 = ACATS records if the settlement date of transfer is after July 27, 2012.
- Open item related to ACATS Asset Sequence Number: there are instances when CBRS users “bundle,” meaning they mix cash and margin shares, or restricted and ‘clean’ shares. Lydia will bring up this issue on the next CBRS Working Group call in order to discuss Best Practices in these bundling scenarios.
- The group discussed the new Master File functionality, the ‘alternate number’ field. For example, this new field could be used in the case where First Clearing, # 141, has assumed CBRS responsibility for all of Wells Fargo # 733. In this case, on the Master File record for firm # 141, the alternate number field would have the value ‘733’ in it. This is how the field would be used: if a submitter tries to send a record to # 733, CBRS would reject it because the account is no longer eligible for CBRS. The same submitter could check this ‘alternate number’ field, and see that cost basis for # 733 should be sent to #141. For this record for # 733, the submitter populates the Contra Firm Number field with # 141, and CBRS sends the record to # 141 (assuming the record passes all other system rules and edits). The committee discussed if eighteen months should be the expiration date for a value in this field, or the time period could be longer or shorter. We will need to have discussions on how both submitters and receivers should process records sent/received in these scenarios. It may be helpful to have an indicator on the record that a submitter can use to indicate that the value in the Contra Firm Number field

is an alternate number; or, it may be helpful to have a new field on the input record with the old firm number in it (#733 in this example). Lydia will continue to have internal design discussions about this feature, and the committee will also continue to discuss how it should work.

- The committee discussed the need to get different industry segments together to discuss Best Practices, issues, and exception processing of CBRS records. The suggestion is to shape the discussions by addressing various transaction types, i.e. types between broker-dealers and transfer agent/issuers, and between broker-dealers and funds. The committee will continue to discuss how to organize these conference calls.
- The committee discussed CBRS requirements for options. Tax Lot Current Cost should be required for options (Asset Category = OPT). It would be helpful to have conversations about the timing of ACATS settlement vs. OCC settlement for options.
- The committee discussed CBRS requirements for fixed income assets. Original cost basis should be required for fixed income asset categories. The CUSIP may cover other items the regulations say need to be transferred. The committee will address fixed income requirements as the IRS gives more guidance.
- The committee reviewed the items in the Parking Lot.

Item #1, requiring the receiver customer account number for conversions, stays on the list.

Item #2, about the Exchange Rate field, was addressed and answered by the committee. Lydia will draft language to clarify the comment in the Exchange Rate field, and review with the committee at our next meeting.

Item #3, about enhancements for the Exempt Recipient Accounts Indicator, stays on the list.

Item #4, about cost basis on Fed Items, passed under Transaction Type 06 = Other Depository Deliveries, has been given a higher priority. Lydia will add it to the agenda for the next meeting.

Item #5, about a Transfer Control Number for foreign items, stays on the list.

Item #6, about removing the Purchase/Dividend Reinvestment Indicator, comes off the list. The committee agreed to leave the indicator in place. While not many CBRS users populate the field, and therefore the data is not very valuable, some CBRS users rely on the information in the field, and want the indicator to stay on the record layouts.

Item #7, about Transaction Type 07 = Physical Movement Settlement, stays on the list. Lydia will add language to this item to indicate that it pertains to assets such as Alternative Investments, Limited Partnerships, and Private Placements, not stock certificates and mutual fund certificates.

III. Next Meeting: Tuesday, February 21, 2012, Noon – 2 PM eastern

### **Parking Lot**

1. **Should the Receiver Customer Account Number be required for Conversions?**
2. [2/7/2012: resolved by committee.] **“Exchange Rate” field:** Do we need to specify that this is the exchange rate for the Tax Lot Current Cost? Do we need another field for the exchange rate for the Tax Lot Original Cost? Would new fixed income cost fields (e.g. OID,

bond premium) need exchange rates also?

3. **Enhancement for Exempt Recipient Accounts Indicator.** Provide three categories on the master file, from which a user could choose what kind of basis it wants to receive. Categories: 1) send all basis; 2) send everything except retirement accounts; 3) send no non-covered accounts (CBRS could systematically edit to this option). The committee will revisit this issue after the existing version of the Exempt Recipient Accounts Indicator has been in place for a few months; and after committee members have had the opportunity to research the issue and quantify the cost of records sent and received for non-covered non-retirement accounts.
4. [2/7/2012: moved to active agenda for next meeting.] **How should Transaction Type 06 = Other Depository Deliveries (e.g. FED) be used?** What fields should be required for this type? What fields need additional rules for this type? What fields need Best Practices for this type?
5. **Default format for Transfer Control Number for foreign asset transfers (Transaction Type 06 = Other Depository Deliveries).** There are two proposed formats for TCN for foreign asset transfers: Julian date (3 bytes) + sequence number (3 bytes) + CUSIP (9 bytes) + deliverer account number (15 bytes) [or receiver account number if deliverer account number is not available]; or the “D format” follows the format below:
  - Position 1: ‘D’ = Direct Transfer Indicator
  - Position 2-5: NSCC Participant Number for the Fund
  - Position 6: Last Digit of Current Year
  - Position 7-9: Julian Date
  - Position 10-15: Unique Number (randomly-generated, sequential)
 A primary difference in these formats is their length: the ‘D’ format is 15 bytes, the first format (‘Kevin’s format’) is 30 bytes. How will deliverer/receiver agree on the TCN?
6. [2/7/2012: removed from list—item closed, indicator stays on the record.] **Remove Purchase/Dividend Reinvestment Indicator?**
7. [2/7/2012: clarification: this transaction type applies to Alternative Investments, Limited Partnerships, Private Placements; not stock certificates and mutual fund certificates.] **How should Transaction Type 07 = Physical Movement Settlement be used?** Fields that may be used for Transaction Type 07 = Physical Movement Settlement: Transfer Control Number; Alternate Control Number; Receiver/Deliverer Customer Account Number; Asset Category: require certain types?; Date Transfer was Initiated/Settlement Date of Transfer; Noncovered/Pending Indicator; Acquisition Date of Tax Lot; Tax Lot Current Cost/Tax Lot Original Cost [9/27/2011: this issue has been designated as lower priority. The security types applicable to this transaction type are not currently covered by the regulations.]

**Future enhancements to be implemented in 2012  
(agreed upon by the Committee)**

Note: items 1 – 6 are scheduled to be included in a July 2012 release.

1. When the wash sale date is populated, it would always be equal or earlier than the acquisition date.
2. Add an edit that says Tax Lot Current Cost cannot be unknown if the lot is covered.
3. Add the ACATS asset sequence number to the Asset Input record. Required for transaction type 01 = ACATS; and required for all record content indicator types (original, corrected,

firm reject, request).

4. New exchange rate field on the Tax Lot record corresponding to the Fair Market Value (FMV) of the Date of Gift.
5. The Deliverer Customer Account Number should be required for Transaction Type 04 = Conversions.
6. The following fields should be required for request records (they are currently conditional):
  - Option fields (required only for Asset Category = OPT): Put/call indicator; Symbol; Expiration Date; Strike Price Integer; Strike Price Decimal
  - Asset Category
  - Total Position Quantity
  - Position Code
7. Add an edit that the Deliverer Customer Account Number and Receiver Customer Account Number should be required for Transaction Type 56 = Networking Transaction. [Note: this requirement will be included in the year-end 2012 release.]

### **Closed Parking Lot issues**

1. Which value is more important, the ACATS Asset Sequence Number, or the CUSIP? Closed 11/29/2011. On 11/29/2011, the committee discussed the question, if the ACATS Asset Sequence Number does not match the CUSIP on the CBRS record, which data element should the contra party use? The group decided that the ACATS Asset Sequence Number is the value to use in this case.
2. Should CBRACK be a valid firm type for other transaction types? Closed 09/20/2011. From minutes: Earlier this year a firm asked to join CBRS as a CBRS-only user to pass basis on ACATS transactions. CBRS does not allow type CBRACK to pass basis on an ACATS transaction, so this firm did not pursue this option. However, this situation led to the question of whether CBRACK should be a valid submitting/contra type for more transactions than it is currently valid for today. The committee discussed this issue, and decided against making CBRACK a valid type for additional transactions: allowing CBRS-only users to submit/receive for additional transaction types may cause more breaks. If an issue arises in the future for a specific CBRS user, the committee can revisit the issue at that time. For now the issue will be moved to the "Closed Parking Lot Issues" list.
3. Should the Deliverer Customer Account Number be required for all transactions? Closed 09/20/2011. The committee agreed on a Best Practice where if the receiver of the asset provides the Deliverer Customer Account Number on the asset transfer, the submitter of the CBRS record should provide it in CBRS. The number should not be required in CBRS: it will not always be available, and there are times when the submitter of the CBRS record is not willing to provide it. This issue is now closed, and will be moved to the "Closed Parking Lot Issues" list.
4. Mutual funds passing cost basis on 01 = ACATS transactions for fund-controlled assets. Closed 09/28/2011. The committee discussed that this is a problem related to a low volume of transfers. Various service bureaus are making changes to prevent firms from transferring mutual funds that are Level 4, fund-controlled assets, which will help to reduce the potential for a firm to receive cost basis from both a firm and a fund. There may be changes to ACATS-Fund/SERV files to help address this issue as well. Groups outside the Steering Committee are working on this issue, so this is a closed issue for this committee.\_
5. User CUSIP issue part 3, adding ACATS sequence number to CBRS record. Closed 10/04/

2011. The committee agreed to add the ACATS sequence number to the CBRS record.

6. New fields needed to support the passing of cost basis on a gift denominated in a foreign currency. Closed 10/11/2011. The committee agreed to add this new field to the requirements for future CBRS enhancements: CBRS needs a new exchange rate field corresponding to the Fair Market Value (FMV) of the Date of Gift. A new currency code field is not necessary.
7. Best Practice about how to populate the deliverer/receiver customer account numbers for mutual fund transfers. Closed 11/08/2011. This question came about as the result of a discussion on the CBRS Working Group call. The question has not come up again, so this issue is currently closed. If customers revive the question, Lydia will bring up the issue again.
8. Remove Purchase/Dividend Reinvestment Indicator? Closed 2/7/2012. While the indicator is optional and not many CBRS users populate it, some users have said that they do use it, so the committee decided to keep the indicator on the record.