

Cost Basis Steering Committee Meeting

Minutes

February 21, 2012, Noon – 2 p.m.

I. Approval of February 7, 2012 Meeting Minutes

- The committee approved the minutes as written.

II. Issues discussed

- Mary Rose brought up the issue of broker-dealers and transfer agents meeting to discuss Best Practices for things related to CBRS, such as the proper creation and use of the Transfer Control Number. There is some confusion about where to find the Transfer Control Number on the deposit ticket. Mary Rose and Kevin will discuss next steps outside of the committee.
- 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. It may make sense to not require the number if the submitting firm is type NSCPRT, i.e. a mutual fund company. There is a rare issue that occurs when both a broker-dealer and a fund send basis to the receiving broker-dealer for a Networking Level 4 fund-controlled asset. This issue may result in the receiving broker overlaying basis from the delivering broker, if that broker sends basis after the fund sends its basis. Firms should not be transferring fund-controlled assets via ACATS. Broker-dealers can find out the Networking level of the asset from the ACATS stat file, but given the rarity of the problem, it may not make sense to have to program to pick up this value for every ACATS asset transfer. Groups other than this committee will further discuss this issue, and report back at our next meeting.
- 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. In this case, if a CBRS submitter has multiple ACATS Asset Sequence Numbers for the same asset, he/she should use the lowest of the Numbers to populate the ‘ACATS Asset Sequence Number’ field in CBRS.
- The committee discussed whether transaction types other than 01 = ACATS, would have cash and margin assets together. Conversions could have margin assets, but there is no indicator on a DTC deliver order (DO) to indicate that the asset is margined. A PTF pull would not have separate cash/margin assets, but a PTF push might. Otherwise, transactions between mutual funds and broker-dealers would not contain margin assets.

- The group discussed the new Adjunct Master File and the ‘alternate number’ field. For example, this new file 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 Adjunct Master File record, # 733 would be the “Alternate ID,” and # 141 would be the Firm Number, meaning that when a counterparty is looking to send cost basis to 733, that it should send the basis to 141. 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 in the Adjunct Master File, 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). Each entry in the file will default to expiring in eighteen months. The firm who is in the Firm Number field can instruct DTCC to use a different expiration date if need be. This functionality will be used if, keeping with the example above, 141 assumes all of 733’s business. The new file will help counterparties figure out where to send basis to a firm that is no longer eligible for CBRS, in order to reduce manual exceptions. However, if some accounts go to one firm, and other accounts go to another firm, this functionality would not work.

Jeff expressed that it would be easier if the retired firm could stay on the existing Master File, and have an alternate placed on that record, e.g. that 733 could stay on the Master File, and the file could indicate that basis for 733 should be sent to 141. Programming to a new file will be more work than adding a field to the existing file. This is not possible because DTCC cannot keep a retired account on the existing Master File.

Creating a new file allows for future expansion. If the existing master file was altered such that 141 could have a new field for alternate ID, containing the number 733, there would be limitations into how many additional alternate IDs could be added to 141’s Master File entry.

DTCC will create this new file every evening, and make it available at approximately the same time as the existing User Master File.

Lydia is still working on the scheduling for when DTCC will implement this new file to production: she is aiming for the July deployment. As soon as Lydia knows the exact schedule, she will post the new record layout and issue an Important Notice. Lydia circulated a draft of the new record layout. If committee members have suggestions on the wording of the descriptions in the comment fields of the layout, please let her know.
- The committee reviewed the list of the CBRS-only users (users without a Firm Number and Type on the User Master File), to see if the users fit into a particular category. There was not a discernible pattern to the type of all the users who are CBRS-only. However, for the funds who are CBRS-only users, the group determined that these funds are not eligible for Fund/SERV, therefore, when sending a CBRS record to them, a broker-dealer does not need to add the letters CATS in front of the ACATS control number in the Transfer Control Number field.
- The committee reviewed the process and User Guide language that describes the population of a CBRS record for the transfer of basis for a short position that has moved outside of ACATS. A key part of the explanation is that the “deliverer” refers to the

deliverer of the short position, who is the receiver of the shares. And the “receiver” refers to the receiver of the short position, who is the deliverer of the shares. Ellen will review the process with the Prime Broker Cost Basis subcommittee on Wednesday, February 22. Lydia will attend the meeting. The committee will review the language in the User Guide again at the next meeting to make sure it’s as clear as possible.

- The committee briefly discussed Transaction Type 06 = Other Depository Deliveries with regard to Fed items. There is a ‘Fed reference number,’ created by the Fed, that is unique to each Fed delivery. This number could be used for the Transfer Control Number. The committee will wait to discuss other requirements for this transaction type until the IRS issues further guidance.

III. Next Meeting: Monday, March 5, 2012, Noon – 2 PM eastern

**Future enhancements for November 2012 release
(agreed upon by the Committee)**

1. Require Tax Lot Current Cost for options (Asset Category = OPT)
2. Warrants and Rights (Asset Categories WAR and RGT) should have rules similar to Equities (EQU)
3. Add an edit that the Deliverer Customer Account Number and Receiver Customer Account Number should be required for Transaction Type 56 = Networking Transaction.
4. Passing cost basis for a security that has undergone a mandatory cash reorg. Scenario: A CBRS record submitted by a broker-dealer was system rejected last week. It was a record sent from the B/D to a transfer agent, on a security that had undergone a mandatory cash reorg on 11/28/2011. CBRS put TA # 00008 on the record, a DTC internal TA number used for reorg’ed securities, and system rejected the record back to the B/D. CBRS may be able to put the old TA number on the record.

Parking Lot

1. Fixed Income related issues/questions:

- Both Original and Current Cost may be required for fixed income assets.
- Either both Yield and Date you’re amortizing to should be required, or neither, but not just Yield.
- Indicator for Equity-based Compensation Arrangement. Also, purchased with a compensation related option: what asset category should the submitter use?
- Adjusted issue price of the debt instrument as of the transfer date may be necessary
- Amortized amount
- Payment frequency
- CBRS may need to be able to pass an amortization/accretion table.
- CBRS may need four new fields: 1) Original Issue Discount/Premium; 2) Indicator to say whether the value is a discount, premium, true zero, or unknown; 3) Market Discount/Premium; 4) Indicator to say whether the value is a discount, premium, true zero, or unknown.
- What should be the Transfer Control Number for Fed items? The ‘Fed Reference Number?’

- 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?

2. **Should the Receiver Customer Account Number be required for Conversions?**
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. **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?
5. **How should Transaction Type 07 = Physical Movement Settlement be used?** This transaction type applies to Alternative Investments, Limited Partnerships, Private Placements; not stock certificates and mutual fund certificates. 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.]

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 after 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.
9. “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? Closed 2/7/2012. The committee determined that the record layouts do not need new exchange rate fields. Lydia will add language to the comments for the existing ‘Exchange Rate’ field to clarify that the field corresponds to the Tax Lot Current Cost field and/or the Tax Lot Original Cost field.