

## Cost Basis Steering Committee Meeting Minutes

March 5, 2012, Noon – 2 p.m.

### I. Approval of February 21, 2012 Meeting Minutes

- The committee approved the minutes as written.

### II. Issues discussed

- Lydia gave an update on the new Master File functionality.

Background: 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).

Based on feedback from previous discussion, DTCC’s development side came up with an alternative to creating a new file: it is possible to create a ‘record type’ in the existing Master File, and then to introduce a new record type that would contain this ‘alternate number’ information.

If DTCC changes the existing Master File, all CBRS users would need to program to this new file as of its production cut date, currently scheduled for 07/26/2012. If DTCC creates a new file, CBRS users can program to take the new file when they are ready.

Committee members will consider the alternatives, and we will discuss the way to proceed at our next meeting.

- Update on adding a transfer agent’s Limited Participant Account (LPA) number to the transaction output: DTCC is requiring a letter from a transfer agent to instruct DTCC to set up the relationship that will allow CBRS to place the LPA number on the transaction output. Lydia will follow up with the group as to the exact language in the letter.
- Follow-up on industry conversations: broker-dealers and transfer agents are working on organizing a call to discuss open issues and best practices for passing cost basis between broker-dealers and transfer agents.
- Follow-up on new ACATS Asset Sequence Number field: *Should the ACATS Asset Sequence Number not be required if the submitting user is type NSCPRT (i.e., a mutual fund)?* In theory, a fund should not have to pass cost basis on an ACATS transfer that occurs between two broker-dealers. However, in practice, broker-dealers sometimes transfer fund-controlled assets through ACATS. This is an open issue, to be discussed by this committee and other groups.
- Customer question: Are funds expected to pass cost basis to a broker-dealer on fund-controlled assets that are transferred via broker-to-broker conversion, Transaction Type 04 = Conversion? Funds have not programmed to transfer basis for Transaction Type 04 = Conversion. This is also an open issue.
- Timing of settlement of options via ACATS vs. via OCC: the committee discussed the

Best Practice that cost basis should be passed on ACATS settlement date not the OCC settlement date.

III. Next Meeting: Tuesday, March 28, 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.