

Cost Basis Steering Committee Meeting

Minutes

March 20, 2012, Noon – 2 p.m.

I. Approval of March 5, 2012 Meeting Minutes

- The committee approved the minutes as written.

II. Issues discussed

- Update on adding a transfer agent's Limited Participant Account (LPA) number to the transaction output: After further internal discussion, DTCC decided that it was not necessary for a transfer agent to submit a letter to instruct DTCC to set up a relationship between a transfer agent's TA number and LPA number. DTCC will publish an Important Notice informing transfer agents that it is creating the relationship.
- 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).

The committee decided that DTCC should include the alternate number data in the existing file. DTCC will not create a new file to distribute this data. Open issue: the committee suggested that it would be preferable to create a parent-child relationship between the new alternate ID record and the existing Master File record. Lydia does not know whether this is possible. She will discuss the issue internally and report back to the committee.

The group discussed that this functionality will be helpful in the cases where all the business of one number is assumed by one other number. It will not work if the business is assumed by two or more numbers.

- List of November changes: Lydia reviewed the requirements for the November 2012 deployment.
 - Require Tax Lot Current Cost for OPT = Options, WAR = Warrants, RGT = rights
 - Require Deliverer Customer Account Number and Receiver Customer Account Number for Transaction Type 56 = Networking Transaction
 - 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 can put the old TA number on the record.
- Follow-up on industry conversations: broker-dealers and transfer agents are focusing on

issues a few firms/agents have in passing cost basis, as a way to identify potential broader issues. Separately, a group is organizing a webinar for 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)?* The committee agreed that, at this time, DTCC will not create an edit saying that the ACATS Asset Sequence Number should not be required if the submitting user is type NSCPRT. 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 issue occurs in approximately less than 1% of ACATS transfers involving funds. The ultimate goal is to eliminate a fund having to send cost basis information on assets passed through ACATS. This is an open issue, to be discussed by this committee and other groups. The committee agreed to move this issue to the Parking Lot.
- 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 an open issue, to be discussed by this committee and other groups. The committee agreed to move this issue to the Parking Lot.

III. Next Meeting: Tuesday, March 27, 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 CBRACT 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 CBRACT to pass basis on an ACATS transaction, so this firm did not pursue this option. However, this situation led to the question of whether CBRACT 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 CBRACT 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.