

**Cost Basis Steering Committee Meeting
Minutes**

April 17, 2012, Noon – 2 p.m.

I. Approval of April 10, 2012 Meeting Minutes

- The committee approved the minutes as written.

II. Issues discussed

- Question about the new Master File functionality: the group discussed how the new version of the master file will work with the current timing that funds use for submitting their CBRS files: funds submit their CBRS records until after 4:00 pm so they get delivered to broker-dealers on the next business day to allow for the building of expectancy files. The concern is illustrated by this example:

Monday: transfer effective

- contra firm number and type obtained from Master File (contra firm is still active at this point)
- CBRS files held until after 4:00 pm

Tuesday: contra firm number becomes ineligible for CBRS

- CBRS files, held until after 4:00 on the previous day, are system rejected by CBRS, because contra firm number is now ineligible

Ideally, the firm assuming the cost basis reporting for the ineligible user has instructed DTCC to set up the ineligible user as an inactive record on the Master File with Monday's date as a start date. DTCC distributes the User Master File on Monday evening, which includes the new inactive record. By reading this Master File, CBRS users know that contra firm is ineligible, and instead they should send cost basis to the Active Firm Number. CBRS will continue to system reject records sent to the ineligible contra firm in error. CBRS users should know to send records to the active firm, instead of the ineligible contra firm, starting on Tuesday.

The alternative is that the active firm has not instructed DTCC to set up the inactive record, in which case CBRS will continue to system reject records sent to the ineligible firm, as above, but contra parties will not know to where to send CBRS records.

- New Master File requirement: The group discussed the record layout for the new Master File. The committee agreed on these field names: Active Firm Number, Active Firm Type, Search Firm Number, Search Firm Type. The committee also changed what in previous discussions had been the "Parent/Child" indicator to the "Active/Inactive" indicator. The idea for these names comes from the thinking that CBRS users will search the Master File first on the Search Firm Number/Type fields, and then use the Active/Inactive indicator to know whether to use the Search Firm Number/Type as the contra party number in CBRS. For active records, a CBRS user can send a CBRS record to either the Search Firm Number/Type, or the Active Firm Number/Type (because the number/type will be in same in both sets of fields). For inactive records, a CBRS user

must send a CBRS record to the Active Firm Number/Type. For inactive Master File records, a CBRS asset/tax lot record sent to the Search Firm Number/Type will be system rejected.

These changes are highlighted in yellow below. The CBRS Account Start Date for inactive records has been changed, per the explanation in the bullet below, marked with an asterisk (*):

CBRS Account ID	CBRS Account Name	Active Firm Number	Active Firm Account Type	CBRS Account Start Date	Exempt Recipient	Search Firm Number	Search Firm Type	Active/Inactive
0000A001	Example 1	111	DTCPRT	1/1/2011	N	111	DTCPRT	A
0000A002	Example 2	2222	NSCPRT	1/2/2011	Y	2222	NSCPRT	A
0000A003	Example 3	33333	AGTNBR	1/3/2011	N	33333	AGTNBR	A
0000A004	Example 4	4444	DTCPRT	1/4/2011	N	4444	DTCPRT	A
0000A004	Example 4	4444	DTCPRT	8/4/2012*	N	123	DTCPRT	I
0000A005	Example 5	5555	NSCPRT	1/5/2011	Y	5555	NSCPRT	A
0000A005	Example 5	5555	NSCPRT	8/5/2012	Y	A037	CBRACT	I
0000A006	Example 6	A006	CBRACT	1/6/2011	N	A006	CBRACT	A
0000A006	Example 6	A006	CBRACT	8/6/2012	N	A038	CBRACT	I
0000A007	Example 7	A007	CBRACT	1/7/2011	N	A006	CBRACT	A
0000A007	Example 7	A007	CBRACT	8/7/2012	N	345	NSCPRT	I
0000A008	Example 8	88888	AGTNBR	1/8/2011	N	88888	AGTNBR	A
0000A008	Example 8	88888	AGTNBR	8/8/2012	N	567	AGTNBR	I
0000A009	Example 9	999	NSCPRT	1/9/2011	N	999	NSCPRT	A
0000A009	Example 9	999	NSCPRT	8/9/2012	N	234	NSCPRT	I
0000A009	Example 9	999	NSCPRT	8/10/2012	N	789	NSCPRT	I

- *Jeff asked whether the ‘CBRS Account Start Date’ for an inactive record will be the same as its corresponding active record. After the meeting, Lydia asked the question to her development group: the ‘CBRS Account Start Date’ for an inactive record will *not* be the same as its corresponding active record. The ‘CBRS Account Start Date’ for an active record will be the first day the account is eligible for processing in the production environment. The ‘CBRS Account Start Date’ for an inactive record will be the first date that the inactive record is valid (i.e. the first day the record appears on the Master File).

III. Next Meeting: Tuesday, May 8, 2012, Noon – 2 PM eastern

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

1. Revisions to CBRS User Master File to support new “Search ID” number and type, and “Active/Inactive” indicator
2. Require Tax Lot Current Cost for options (Asset Category = OPT)
3. Warrants and Rights (Asset Categories WAR and RGT) should have rules similar to Equities (EQU)

4. Add an edit that the Deliverer Customer Account Number and Receiver Customer Account Number should be required for Transaction Type 56 = Networking Transaction.
5. 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.