

Cost Basis Steering Committee Meeting

Minutes

May 7, 2012, Noon – 2 p.m.

I. Approval of April 17, 2012 Meeting Minutes

- The committee approved the minutes as written.

II. Issues discussed

- The committee discussed the IRS' recent decision to postpone the covered date for fixed income and options until January 1, 2014. CBRS has one option-related requirement scheduled to be implemented in November 2012. The committee agreed that this requirement should still be implemented in November 2012, despite the delay. The requirement will help to put in place a standard for options sooner rather than later.
- The committee discussed compiling a written response to the IRS suggesting how to process cost basis for fixed income assets. Work on this letter will occur outside of DTCC.
- New name for the "CBRS Account Start Date" field: the CBRS development team suggested that, with the addition of the new Inactive records on the CBRS User Master File, the field now named "CBRS Account Start Date" field now serves two purposes: for active records, it contains the date that the account first became eligible to use CBRS in production; for inactive records, it contains the first date that the inactive record was effective. As a result, the committee agreed that the name of this field should change to "Effective Date".
- On the CBRS Working Group call on April 25, 2012, a caller asked whether CBRS should have an indicator that allows the submitter to tell the contra party that an option is a compensatory option. The committee agreed that CBRS should have this indicator— Lydia will add this issue to the Parking Lot so the committee can revisit it in the future when discussing fixed income and additional options requirements.
- The committee discussed a customer question about exchange rate for lots that have been adjusted for a wash sale. For lots whose acquisition date has been adjusted as the result of a wash sale, the exchange rate should be the rate as of the date in the "Original Acquisition Date for Wash Sale Adjustment" field. Further discussion of this question arrived at some additional points about lots in a foreign currency:
 - The exchange rate is the rate that the delivering firm captured on the date the security was purchased. The currency that the trade settled in is the currency that the cost basis should be recorded in.
 - The deliverer provides the exchange rate so that the receiver can calculate the gain/loss in the currency vs. the gain/loss in the security.

III. Next Meeting: Tuesday, May 22, 2012, Noon – 2 PM eastern

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?

1. New option-related requirements:

- New Compensatory Option indicator (Y/N)
2. Best Practices around inactive Master File records. What criteria should a receiving firm use to match the CBRS record to an asset transfer? The assumption is the active broker will be able to apply the cost basis. What are the obstacles to this assumption? Funds who send their file to CBRS after 4 PM may not be able to use the inactive record until the second day it is on the Master File.
 3. **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.
 4. **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.
 5. **Should the Receiver Customer Account Number be required for Conversions?**

6. **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 (include an 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.
7. **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? Is there a consistent number for each contra party across the various depositories in different countries?
8. **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 CBRACKT 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.