

Cost Basis Steering Committee Meeting

Minutes

May 8, 2013, Noon – 2 p.m.

I. Approval of April 23, 2013 Meeting Minutes

- The committee approved the minutes as written.

II. Issues discussed

- The committee decided that there should be two deployments in 2014. The bulk of the changes should be deployed in the earlier cut; however, many fields should not be required until the end of the year. Lydia is working with her developers to determine the deadline for when the requirements for the first deployment need to be complete.
- The committee decided to keep the issue of Elections on the Open list.
 - Election to accrue market discount using a constant yield
 - Election to include market discount in income currently
 - Election to treat all interest as OID
 - Election to amortize premium
 - Spot rate election for interest accruals with respect to a covered debt instrument denominated in a currency other than the U.S. dollar
- For the next meeting, Lydia will make a list of asset categories that may now be required in the Current cost and Acquisition date fields.
- The committee decided to add a new field for Yield, tentatively with 8 decimal places.
- The committee decided to add a new field for Date amortizing to (CCYYMMDD), CBRS will reject if date not in correct format. (Tax Lot record) Note: Either both Yield and Date amortizing to should be required, or neither, but not just Yield. In other words, if yield is populated, date must be populated. If date is populated, yield must be populated. Otherwise, CBRS will reject the record.
- The committee decided that a field for Adjusted issue price of the debt instrument as of the transfer date is necessary.
- CBRS needs some combination of the following:
 - Any market discount that has accrued as of the transfer date
 - Any bond premium that has been amortized as of the transfer date
 - Any acquisition premium that has been amortized as of the transfer date
 - 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.
- The committee decided that CBRS does not need the following fields:
 - an Indicator for fully amortized or accreted
 - Amortized amount
 - Payment frequency (included in CUSIP)
 - CBRS may need to be able to pass an amortization/accretion table
- Open issues for Fed items:

- 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?
- How does a CBRS user identify its counterparty at the Fed?
- What if a firm settles Fedwire transactions through someone else? Who sends the cost basis? How does the underlying firm receive it? What if the Fed member is not CBRS eligible?
- How do I tell the non-ACATS Fed items from the ACATS items for my expectancy file?

II. Options requirements

- The committee discussed the question about whether there are there any unique requirements for single stock futures (question from Kevin at Goldman on last CBRS Working Group call). Bob will ask his colleagues that work with single stock futures.
- The committee confirmed the following new requirements for options:
 - New Transaction Type for OCC non-ACATS Transfer = 08.
 - Lydia will add the new 30 byte number created by OCC to the Best Practices for the TCN for this new transaction type.
 - Submitting/Contra Firm Number must be the Firm Number that is CBRS eligible, not the OCC firm number. For example, if Pershing's OCC number was 123, the Submitting/Contra Firm Number to use in CBRS is 443, not 123. Submitters must translate the OCC number to a valid CBRS number in the cases where the OCC number differs from the user's CBRS-eligible number.
 - Firm Type NSCPRT should not be allowable for new Transaction Type 08.
 - ISIN should not be required for new transaction type 08.
 - Option-description fields should be required for 08 (Put-Call indicator, Option Symbol, Option Expiration Date, Option Strike Price Integer, and Option Strike Price Decimal).
 - Asset Category OPT is required for Transaction Type 08.
 - Deliverer/Receiver Customer Account Number should be required when Transaction Type is 08 = OCC non-ACATS transfer—**if the number is required at the OCC.**
 - Settle Date of Transfer should be required when Transaction Type is 08. For Transaction Type 08, the settlement date of transfer is the settlement date at the OCC. This is different than the settlement date for an option transferred through ACATS—when an option is transferred through ACATS, the correct date to populate in the settlement date of transfer is the ACATS settlement date.
- The committee began the discussion of the OCC number 'child' record to Master File, building on current Active/Inactive functionality. The committee will continue to discuss this design in future meetings. See example below.

CBRS Account Name	Firm Account ID	Firm Account Type	Search Firm ID	Search Firm	Active/Inactive	account type
PERSHING LLC	443	DTCPRT	443	DTCPRT	A	
PERSHING LLC	443	DTCPRT	443		I	OCCALT
PERSHING LLC	443	DTCPRT	443		I	GOVALT
PERSHING LLC	443	DTCPRT	234		I	OCCALT
PERSHING LLC	443	DTCPRT	456		I	OCCALT
PERSHING LLC	443	DTCPRT	789		I	OCCALT
PERSHING LLC	443	DTCPRT	858		I	OCCALT
RAYMOND, JAMES & ASSOCIATES, INC.	725	DTCPRT	725	DTCPRT	A	
RAYMOND, JAMES & ASSOCIATES, INC.	725	DTCPRT	780	DTCPRT	I	CBRALT
RAYMOND, JAMES & ASSOCIATES, INC.	725	DTCPRT	780		I	OCCALT
ROBERT W. BAIRD & CO., INC.	547	DTCPRT	547	DTCPRT	A	
ROBERT W. BAIRD & CO., INC.	547	DTCPRT	784		I	GOVALT

- Brokers will need to inform DTCC to create one or more child records containing their OCC number(s). DTCC can assist in identifying and reaching out to brokers to let them know that they need to inform DTCC. Contraparties will need to consult the Master File to know how to map the OCC number to the eligible CBRS number.

III. Miscellaneous requirements

Lydia raised the questions as to whether the three requirements below are still required given that compensatory options are not covered by the regulations. She will follow up with Joan to see what she thinks.

1. Create a new field that indicates whether the basis was stepped up due to an equity-based compensation arrangement. The indicator is one byte, with values Y or N. The field should be located on the Tax Lot Input record layout, after the existing “Employee Plan Shares Indicator” field. **What should the name of this indicator be?**
2. Add new values to the existing “Employee Plan Shares Indicator” field:
 - 03 = Non-Qualified Stock Option
 - 04 = Stock-settled Stock Appreciation Rights (SARs)
 - 05 = Restricted stock/Restricted Stock Units
3. The submitter should populate both fields (stepped up indicator and plan shares indicator). If one field is populated, CBRS should require that the other is populated, otherwise CBRS will reject the record. **Should these indicators be required only for asset category EQU, or other asset categories as well? Should ‘unknown’ be a value too, or should there be a default? Note (9/11/2012): the committee tabled the discussion of these indicators until the IRS releases final regulations. Also, the stepped-up indicator may not be necessary.**

IV. **Next Meeting:** Friday, May 17, 2013, 1 – 2 PM eastern

Parking Lot

1. **Can we consolidate some of the asset categories, such as use OPT for options, warrants, and rights, and remove the types WAR and RGT?** Waiting for final fixed income/options regulations to further discuss this question.
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.
 - An active user may not be able to accept records sent to it on behalf of one of its inactive users. For example, an active CBRCT user cannot accept records for most transaction types. (Brought up on CBRS Working Group call, 05/10/2012)
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. **If brokers use Networking Transaction Type 4 for ‘one-off’ transfers, what are the implications for CBRS? Will participants program their expectancy files to include these transfers?**
6. **Should the Receiver Customer Account Number be required for Conversions?**
7. **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.
8. **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?

9. **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.]
10. **Possible future enhancements:** Create a new CBRS TCN file from DTC for both transfer agents and broker-dealers, to inform both parties of the TCNs for their DTC transactions for a given day; Pre-populate WebDirect screens with information from DTC deposit tickets.

Closed Parking Lot issues

1. Compensatory options: should there be an indicator that allows the deliverer to indicate that shares were purchased with a compensatory option, and is it possible for the actual option to transfer. Closed 04/23/2013: Final regulations say No to this question.
2. 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.
3. 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.
4. 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.

5. 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.
6. 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.
7. 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.
8. 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.
9. 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.
10. “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.
11. Networking Control Number not unique from year to year: may cause a problem when passing cost basis starting in 2013. Proposal: add a year to the number, e.g.: JJJY9999999, where JJJ = Julian date, Y = last digit of the year, 9999999 = seven digit sequential number. Jeff Naylor and Yana will take the lead on this proposed change (6/5/2012). 8/28 Note: this proposal was submitted to DTCC Wealth Management, and tentatively will be scheduled for implementation during 2013.