Cost Basis Steering Committee Meeting   June 5, 2012, Noon – 2 p.m.
        Minutes

I. <u>Approval of May 22, 2012 Meeting Minutes</u>
- The committee approved the minutes as written.

II. <u>Issues discussed</u>

- Testing of the new inactive records. Lydia is able to set up an inactive record that is a test CBRS account. Setting up inactive records that are a NSCC, DTC, or Transfer Agent test account is much more difficult. The committee did not have a preference about what type of account in the inactive record, so Lydia will pursue setting up the test inactive records with CBRS accounts.
- Suggestion of adding a field for "Inactive Firm Number" to the Asset Input record layout. Committee members felt that adding this field would not be helpful. The surviving firm/fund has stored enough information to match CBRS records for an inactive firm to the surviving firm's books.
  - From this conversation rose a discussion about a mutual fund CUSIP moving from one mutual fund company to another, per the scenario below:
    - Brokerage Firm 1234 transfers CUSIP 999999999 to MF Company participant 5555.
    - 30 days later MF Participant 5555 sells part of their business to MF Participant 6666. CUSIP 999999999 is part of that sale.
    - CUSIP 999999999 might or might not change to a new CUSIP.
    - 60 days later Brokerage Firm 1234 needs to send a corrected record and will send the record with the associated control number (from the prior transfer) to MF Participant 5555 since they will not know that the original transfer should be re-routed to 6666.
  - Question: Does the interpretation of the regulations would allow for 5555 to reject the record back to Brokerage firm 1234 or do you think there is an obligation to have 5555 forward the corrected record to 6666? This discussion will continue on the next ICI cost basis call.
- The Networking Control Number is not unique from year to year: may cause a problem when passing cost basis starting in 2013. Customer suggestion: maybe DTCC could add a year to the number, e.g.: JJJY9999999, where JJJ = Julian date, Y = last digit of the year, 9999999 = seven digit sequential number. The committee agreed with this suggestion. Jeff will take the lead in submitting an enhancement request to DTCC's Wealth Management Services Product Management.
- Control Number for Fed items. Kevin, Derek, and Ellen will work with their Fed settlement areas to identify a control number to use as the Transfer Control Number in CBRS. Derek provided the following info from a call with BNY on 5/29/2012:

- BNY clears roughly 85% of fed items, JPM Chase handles 14% of the industry volume.
- If both firms of a transfer are BNY clients, then there is an internal number available to both parties created by BNY. It's an internal accounting move similar to other clearing models or "omnibus mutual funds". The BNY internal tracking/ confirm # is called a GSCX number.
- If one firm is a BNY client and the other is Chase, then the FED moves shares from A to B and an IMA reference number is produced. In this scenario, there might be another "number" created as well. The IMA number is supposed to have information that makes it unique like a date or time stamp.
- In a follow-up to a conversation from the last meeting, the committee continued to discuss ways to help broker-dealers and transfer agents agree on the transfer control number. Ideas include: similar to the Daily Deposit File and Daily Reorg Deposit File for TAs, DTC could create a file for brokers that lists the deposits they have made that day; and/or, CBRS could pre-populate the WebDirect screens with information from DTC about the deposits, and the user could then complete the record with cost basis information and submit the data to CBRS. Lydia will add both of these suggestions to the list of potential requirements for next year's project.

III.   Next Meeting: Tuesday, June 26, 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 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. <u>New fields needed to support the passing of cost basis on a gift denominated in a foreign currency. Closed 10/11/2011.</u> 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. <u>Best Practice about how to populate the deliverer/receiver customer account numbers for mutual fund transfers. Closed 11/08/2011.</u> 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. <u>Remove Purchase/Dividend Reinvestment Indicator? Closed 2/7/2012</u>. 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. <u>"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.</u> 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.