

Cost Basis Steering Committee Meeting Minutes
June 18, 2013, Noon – 1 p.m.

Meeting Attendees

Ellen Bocina — NFS
Joan DiBlasi — AFLAC
Bob Linville — Broadridge
Kevin McCosker — Pershing

Lydia Midwood — DTCC
Tom St. Jean — BNY Mellon
Derek Yen — Edward Jones

I. Approval of June 11, 2013 Meeting Minutes

- The committee approved the minutes as written.

II. Issues discussed

- The committee discussed changes to the CBRS User Master File to accommodate users' OCC number, identification number at the Fed, and the numbers that are assumed by another company (e.g. when Raymond James purchased Morgan Keegan).
 - DTCC will remove the Active/Inactive column.
 - DTCC will add new values to the Search Firm Type field, per the example below:

CBRS Account Name	Firm Account	Firm Account Type	Search Firm ID	Search Firm Type
PERSHING LLC	443	DTCPRT	443	DTCPRT
PERSHING LLC	443	DTCPRT	443	DTCOCC
PERSHING LLC	443	DTCPRT	234	DTCGOV
RAYMOND JAMES	725	DTCPRT	725	DTCPRT
RAYMOND JAMES	725	DTCPRT	780	DTCBTC

- The committee confirmed that Tax Lot Current Cost should be required for options, warrants, and rights.
- Lydia brought up the question of for which fixed income asset categories should the Acquisition Date of Tax Lot be required. Turns out the question is moot: the requirements for Acquisition Date of Tax Lot are not dependent on asset category
- Following the question above, a discussion began about committee members receiving tax lot records that have an acquisition date but unknown/no basis. CBRS rules should prevent this from occurring. Bob will send examples to Lydia.
- The committee confirmed the requirement that 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.**
- The committee discussed whether a new Transaction Type is needed for non-ACATS transfers that occur at the Fed. This is an open issue.
- The committee confirmed that a field for Yield should be added to the Tax Lot record. This field will be a decimal less than one. The committee suggests the field should be ten bytes long.

- The committee discussed whether there should be a new field for ‘adjusted issue price of the debt instrument as of the transfer date’. This information is available as a part of the CUSIP, but there may be some situations in which the adjusted issue price should be a part of the transfer statement. This is an open issue.

Agreed-upon requirements for next phase of CBRS changes

1. New field for Yield. Tax Lot record. 10 bytes. Always a decimal less than 1. Does DTCC have a standard format for decimals, meaning should the submitter populate the field with 0.XXXXX; or, does the submitter just populate the field with XXXX and the zero and decimal point are implied?
2. 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.**
3. Date amortizing to (CCYYMMDD), CBRS will reject if date not in correct format. (Tax Lot record) [Note for editing rule: Either both Yield and Date amortizing to should be required, or neither.]
4. New Transaction Type for OCC non-ACATS Transfer = 08.
5. Firm Type NSCPRT should not be allowable for new Transaction Type 08.
6. ISIN should not be required for new transaction type 08.
7. 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).
8. Asset Category OPT is required for Transaction Type 08.
9. Settle Date of Transfer should be required when Transaction Type is 08.
10. Note: confirmed—keep current rule that Tax Lot Current Cost should be required for options, warrants, and rights.
11. Add OCC number ‘child’ record to Master File, building on current Active/Inactive functionality. See example below.

CBRS Account Name	Firm Account	Firm Account Type	Search Firm ID	Search Firm Type
PERSHING LLC	443	DTCPRT	443	DTCPRT
PERSHING LLC	443	DTCPRT	443	DTCOCC
PERSHING LLC	443	DTCPRT	234	DTCGOV
RAYMOND JAMES	725	DTCPRT	725	DTCPRT
RAYMOND JAMES	725	DTCPRT	780	DTCDTC

Note: 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.

III. **Next Meeting:** Tuesday, June 25, 2013, Noon – 1 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.