

**Cost Basis Steering Committee Meeting
Minutes**

July 24, 2012, Noon – 2 p.m.

I. Approval of June 26, 2012 Meeting Minutes

- The committee approved the minutes as written.

II. Issues discussed

- Suggestion from a customer: Create a cross-reference file to match a transfer agent's Limited Participant Account (LPA) number, used when processing deliver orders (DO) at DTC, and the agent's Transfer Agent (TA) number, to help when matching DRS-related DOs to CBRS records. The committee did not feel that this file was necessary. Brokers have either made internal adjustments on their side, or do not match on contra firm number. Because programming varies from broker to broker, the committee felt that this cross reference file would not add value to the matching process.
- Discussion of Financial Information Forum (FIF) call, including representatives from the IRS, on IRS regulations on fixed income assets. There may be two new fields for CBRS: date amortizing to, and indicator for full or accreted.
- Follow up on the issue that the Networking Control Number is not unique from year to year: may cause a problem when passing cost basis starting in 2013. Attendees at the next Investment Company Institute Cost Basis Reporting (ICI CBR) Task Force meeting will discuss the following possible solutions:
 - Recommend that a submitter add a number, tentatively to the beginning or end of the Networking Control Number, to indicate the year, when populating the Transfer Control Number field in CBRS. Con: this recommendation would be a best practice, not systematically enforced.
 - Change the format, not the length, of the existing Networking Control Number to include a number with the last digit of the year. In order to generate the number of Networking Control Numbers that the system would need to keep them unique, the Networking Control Number would change from a numeric format to alphanumeric. Historically this Number was alphanumeric, so users' systems are already program to handle an alphanumeric value in this field. The benefit of this approach is two-fold: Networking users would not have to change their programming to accommodate the new format, and the change to include the year would be automated, not a best practice like Option #1.

Jeff will report the results of the discussion back to this Steering Committee.

- Control Number for Fed items. The IMAD (Input Messaging Accountability Data) number, sometimes referred to as the IMA number, is a unique number generated by the Fed that can be used as the Transfer Control Number in CBRS. Firms may receive and process this number differently, so they may have to research how they get this number from the Fed, and how they can use it for cost basis transfer purposes.

Lydia will bring up the issue during the CBRS Working Group call on July 25, in order to raise awareness, and solicit feedback, about this number with the larger group.

- Control Number for option assets. Most options transfer via ACATS, so CBRS users will use the ACATS control number as the TCN. For options that transfer outside of ACATS, it is an open issue as to what number should be used as the TCN. Preliminary research indicates that the Options Clearing Corporation (OCC) does not create a unique number for option transfers. This is an open issue.
- Kevin suggested it may be possible to capture the IMAD number, and a number for options, in Obligation Warehouse. Lydia will research this possibility with her DTCC colleagues.
- CBRS TCN file. Currently DTC creates a file for Transfer Agents listing their deposits, and the deposits' corresponding Control Numbers. The committee discussed the possibility of creating a similar file for all (or as many as possible) transactions and their corresponding control numbers. This file would not include ACATS transactions, because both sides of the ACATS transfer know the ACATS Control Number. This file would provide a foundation for users to build their expectancy file. This file may or may not be useful to users—the committee discussed the cost of building to this new file, and how much value the file could ask. This discussion is an open issue.

III. Next Meeting: Tuesday, August 28, 2012, Noon – 2 PM eastern

Proposed future enhancements

1. 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
2. Pre-populate WebDirect screens with information from DTC deposit tickets
3. New Compensatory Option indicator (Y/N)
4. Date amortizing to
5. Indicator for full or accreted

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. 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. **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. **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.: JJY9999999,

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. **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.]

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 CBRACK 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.