

**Cost Basis Steering Committee Meeting
Minutes**

September 20, 2011, Noon – 2 p.m.

I. Approval of September 13, 2011 Meeting Minutes

- The Committee approved the minutes as written

II. DTCC Update

- An updated version of the CBRS User Guide was posted to www.dtcc.com today. This version does not include updates to the chapter on using the system through WebDirect. It is expected that this chapter will be updated by the end of October/beginning of November. DTCC is also working on updating the Frequently Asked Questions.
- As of 08/31/2011, 259 companies have signed up to use CBRS: 32 banks, 99 broker-dealers, 54 mutual fund companies, and 74 equity transfer agents/issuers. The 54 Mutual Fund Companies are counted at a legal entity level: counting individual funds that have signed up to use the service, the number is closer to 100. 125 companies have submitted data to Production: 20 banks, 71 broker-dealers, 0 mutual fund companies, and 34 equity transfer agents/issuers.

III. Issues discussed

- Gifts in a foreign currency. The committee discussed the possible need for new fields to support the passing of cost basis on a gift denominated in a foreign currency: CBRS may need new exchange rate and new currency code fields that correspond to the Fair Market Value (FMV) of the Date of Gift. There may be a need for these fields, but perhaps the carryover basis and the FMV would always be in the same currency. This is a new parking lot issue, and the committee will revisit the issue in future meetings.
- Parking Lot issue #2, Transaction Type 07 = Physical Movement Settlement. The committee revisited last week's discussion of Parking Lot issue #2, how should transaction type 07 = *Physical Movement Settlement* be used? Some additional possibilities discussed today: alternative investments, private placements. This category includes assets in physical form, transferred outside of ACATS. In a future meeting the committee will review CBRS fields that may be used for this Transaction Type, such as Transfer Control Number, Alternate Transfer Control Number, Pending/Noncovered Indicator, Settlement Date, Cost fields.
- Should CBRACK be a valid firm type for other transaction types? 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.
- Should the Deliverer Customer Account Number be required for all transactions? 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.

IV. Next Meeting: Tuesday, September 27, 2011 from Noon – 2 PM eastern

Parking Lot

1. **How should Transaction Type 06 = Other Depository Deliveries (e.g. FED) be used?**
Should the Deliverer/Receiver customer account numbers be required for this type?
2. **How should Transaction Type 07 = Physical Movement Settlement be used?** Use it for Alternative Investments? What language should be added to the record layouts to clarify? Should the Deliverer/Receiver customer account numbers be required for this type?
3. **Create a universal default format for the Transfer Control Number** which can be used for all Transaction Types and all Asset Categories. One suggestion is 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]. 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)
4. **Mutual funds passing cost basis on 01 = ACATS transactions for fund-controlled assets.**
5. **Best Practice about how to populate the deliverer/receiver customer account numbers for mutual fund transfers.** Ideally the underlying customer account number should be populated in these fields. If this is not possible, what best practice should the industry follow for alternatives?
6. **Should the Deliverer and Receiver Customer Account Numbers be required for Networking Transactions?**
7. **Possible edits to the Exempt Recipient Account Indicator:** The rule could be configured to be set to Exclude All Exempt Recipient Accounts, and the Non-covered/pending indicator is 02 (non-covered account), DTCC could system reject the records.
8. **Make Receiver Customer Account Number required for Conversions?**
9. **Remove Purchase/Dividend Reinvestment Indicator?**
10. **New fields needed to support the passing of cost basis on a gift denominated in a foreign currency?** CBRS may need new exchange rate and new currency code fields that correspond to the Fair Market Value (FMV) of the Date of Gift. There may be a need for these fields, but perhaps the carryover basis and the FMV would always be in the same currency.
11. **Additional rules for fixed income assets:** (The committee will review this issue as the IRS issues more guidance.)
 - a. Cost fields
 - b. New Zero Basis Indicator to point to Tax Lot Original Cost?
12. **User CUSIP issues (to be primarily addressed in Derek’s call):**

- a. Scenario: an asset with a User CUSIP transfers from one firm to another in ACATS. The receiver sets up the asset, using its User CUSIP, in its CBRS expectancy file. The submitter sends cost basis through CBRS using its User CUSIP, which is different than the receiver's identifier. The receiver cannot match the cost basis to the asset transfer, so it marks the lot(s) as uncovered.
- b. Revisit the Best Practice that a blank CUSIP value for a request for transaction type *01 = ACATS*, because a blank value in the CUSIP field could be a request for an asset with a User CUSIP.
- c. Possible programming solution: Add ACATS sequence number to CBRS record layouts (helps with User CUSIP issue)

**Future enhancements
(agreed upon by the Committee)**

1. When the wash sale date is populated, it would always be equal or greater than the acquisition date
2. Add an edit that says Tax Lot Current Cost cannot be unknown if the lot is covered

Closed Parking Lot issues

1. 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.
2. 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.