

Cost Basis Steering Committee Meeting Minutes

September 25, 2012, Noon – 2 p.m.

I. Approval of September 11, 2012 Meeting Minutes

- The committee approved the minutes as written.

II. Issues discussed

- The committee discussed the discrepancies between the Asset Categories in CBRS and the Asset Pricing Categories in ACATS. The reason for the discrepancies is that the IRS regulations specify rules for certain asset types, and not others. For example, MFMM (mutual fund money market) is a pricing category in ACATS, but is not necessary for CBRS because there is no need to pass cost basis on a money market mutual fund. The Steering Committee also decided not to use OTH (other) as an Asset Category in CBRS because other was not useful in cost basis programming. CBRS uses different Asset Categories for options (OPT), warrants (WAR), and rights (RGT) because when the committee was designing the system in 2009 and 2010 the regulations did not yet specify how each of these assets should be treated for cost basis purposes.
 - The committee has deferred the decision about whether some asset categories can be consolidated (e.g. using OPT for options, warrants, and rights) until the IRS issues final regulations for options.
 - Some receivers do not use Asset Category as a part of their matching routine. The submitter's Asset Category often does not agree with the receiver's Asset Category. The recommendation is that a receiver should use the CUSIP on its master file to determine which Asset Category to use.
 - The value in the Asset Category field is important to the submitter, because there are CBRS system rules and edits that are driven by the field. CBRS does not determine whether the Asset Category is the correct Asset Category for that CUSIP. CBRS accepts the submitter's value and passes it to the receiver.
- The committee discussed a default transfer control number for non-ACATS options transfers, and agreed on the following format: Julian date of the settlement date (3 bytes) + deliverer's CUSIP (9 bytes) + deliverer account number (18 bytes). The situation may occur, if the deliverer transfers the same option on the same day for the same customer, that the receiver gets more than one CBRS record on that day with the same transfer control number. The receiver should then bulk the received CBRS records, and segregate the cost basis data as needed.
 - Open question: does every transfer that passes through the OCC use the industry standard option symbol?
- The committee discussed whether we should create a new transaction type specifically for the non-ACATS transfer of options. An alternative is that cost basis for options can be transferred under transaction type 06 = Other Depository Deliveries. Because the OCC does not provide Receiver Customer Account Number on its output, the Receiver Customer Account Number should not be required in CBRS. The Receiver Customer Account Number is currently required for transaction type 06 = Other Depository Deliveries.

- The committee discussed the issue of separating non-ACATS options transfers from the ACATS options transfers on the output from the OCC. Similarly, the committee discussed the issue of separating the non-ACATS fed items from the ACATS fed items transfers on the output from the Fed. Lydia will bring up this issue on the CBRS Working Group call: CBRS users should be aware that they will need to identify the difference between the ACATS and non-ACATS transferred items for both these asset classes in order to build their expectancy files.
- The committee decided that the IMAD (Input Messaging Accountability Data) number is the number to use for securities transferred through the Fed instead of ACATS. Lydia will add this Best Practice to the record layouts, the User Guide, and mention the number on the CBRS Working Group.

III. Next Meeting: Tuesday, October 23, 2012, Noon – 2 PM eastern

Proposed future enhancements

1. Date amortizing to
2. Indicator for full or accreted
3. 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?
4. 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

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.

5. Create a new system reject reason to identify records that CBRS rejects because the TA Number corresponds to an internal DTC TA number (such as in the case of a reorg).

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.
 - 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 CBRACT 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. **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.]
9. **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. 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.
10. 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.