

**Cost Basis Steering Committee Meeting
Minutes**

September 27, 2011, Noon – 2 p.m.

I. Approval of September 20, 2011 Meeting Minutes

- The Committee approved the minutes as written. [There was a word choice correction that occurred before the meeting. The version of the minutes reviewed at this meeting contained the correction.]

II. Issues discussed

- The committee discussed the Parking Lot issue: *How should Transaction Type 07 = Physical Movement Settlement be used?* The committee agreed that this transaction type is applicable to, in general, Alternative Investments, and physical certificates transferred from broker-dealer to broker-dealer outside of ACATS. The group agreed that this question is not the top priority, since the securities applicable to this transaction type are not currently covered by the regulations. Not all firms carry cost basis on their books for these securities, and therefore will not pass it. This issue will stay on the Parking Lot list, at a lower priority.
- The committee discussed the Parking Lot issue concerning a universal default format for the Transfer Control Number. One concern arose about who would create this TCN, the deliverer or receiver of the asset: if the deliverer creates the number, how does the receiver know what to expect? The Julian Date should correspond to the settlement date of the transfer. Derek will work on a few suggested formats, and then Derek and Lydia will raise the issue on their respective working group calls.
- The committee discussed the Parking Lot issue: Mutual funds passing cost basis on 01 = ACATS transactions for fund-controlled assets. 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.
- The committee discussed Parking Lot issue: Best Practice about how to populate the deliverer/receiver customer account numbers for mutual fund transfers. This question occurs in a few different contexts. First, the use of ACATS mutual fund agents can cause some confusion about customer account numbers. Second, there may be an educational issue, in that the Supplemental Guide states where to find customer account numbers in various record layouts. CBRS Users may need to be made aware of this information in the guide, or potentially the information needs to be revised so users understand it. Third, there may need to be Networking changes or updates to Networking documentation, specifically around the F53 record, to help firms find the customer account numbers necessary to pass cost basis through CBRS. Lydia will review the Supplemental Guide to identify relevant sections of that document.

III. Next Meeting: Tuesday, October 4, 2011 from Noon – 2 PM eastern

Parking Lot

1. **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. **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)
3. **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?
4. **Should the Deliverer and Receiver Customer Account Numbers be required for Networking Transactions?**
5. **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.
6. **Make Receiver Customer Account Number required for Conversions?**
7. **Remove Purchase/Dividend Reinvestment Indicator?**
8. **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.
9. **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?
10. **How should Transaction Type 07 = Physical Movement Settlement be used?** 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.]
11. **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 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.
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.
3. 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._