

**Cost Basis Steering Committee Meeting
Minutes**

October 11, 2011, Noon – 2 p.m.

I. Approval of October 4, 2011 Meeting Minutes

- The Committee approved the minutes as written.

II. Issues discussed

- User CUSIPs in ACATS. The committee continued the discussion of adding a field to the CBRS Asset record to contain the ACATS asset sequence number (6 bytes), focusing on a Best Practice for the scenario when a deliverer does not bundle its cash and margin assets in an ACATS transfer for an asset with a User CUSIP. In this case, when the deliverer sends the CBRS records, the Best Practice suggests that the deliverer should pick the lowest of the corresponding ACATS asset sequence numbers to populate the new “ACATS asset sequence number” field. This ACATS asset sequence number will help the CBRS record receiver match the ACATS transfer to the CBRS record for an asset with a User CUSIP, since it is likely that the receiver will not be able to match on the User CUSIP.
- The committee discussed the Parking Lot issue: New field needed to support the passing of cost basis on a gift denominated in a foreign currency; confirm that 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. The committee agreed to add this new field to the requirements for future CBRS enhancements.
- The committee began discuss the requirements for deliverer and receiver customer account numbers. The committee deferred the discussion until a future meeting when mutual fund representatives are on the call.
- The committee discussed the Parking Lot issue: firms not being able to tell the difference between a regular deliver order (DO) and a DK DO. Firms should not be sending basis on DK DOs. If the DTC reason codes are used correctly, firms would more easily be able to tell which DOs are DKs. The DK DO reason code is # 41. Lydia will pursue whether it is possible to send out an Important Notice about the importance of using this reason code to help with CBRS processing.

III. Next Meeting: Wednesday, October 19, 2011 from 10 – 11 AM 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. **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 the deliverer and receiver agree on what the TCN is?

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. **Requirements for Deliverer/Receiver Customer Account Numbers:** Should the Deliverer and Receiver Customer Account Numbers be required for Networking Transactions? Make Receiver Customer Account Number required for Conversions?
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. **Remove Purchase/Dividend Reinvestment Indicator?**
7. **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?
 - c. Best Practice: For bonds, the Fair Market Value as of Date of Gift field should contain the original, not adjusted, market value
8. **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.]

**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.
3. Add the ACATS asset sequence number to the Asset Input record. Required for transaction type 01 = ACATS; and required for all record content indicator types (original, corrected, firm reject, request).
4. New exchange rate field on the Tax Lot record corresponding to the Fair Market Value (FMV) of the Date of Gift.

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.
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.
4. 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.
5. 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.