

Cost Basis Steering Committee Meeting Minutes

October 23, 2012, Noon – 2 p.m.

I. Approval of September 25, 2012 Meeting Minutes

- The committee approved the minutes as written.

II. Issues discussed

- NFS will be sending ~62,000 corrected records in the near future. These records will correspond to transfers in 2012. Ellen will let Lydia know when she knows the date, and Lydia will distribute the date to the committee.
- The committee discussed the question of whether an additional transaction type is needed for the transfer of options outside of ACATS. The answer is no. Instead, a submitter should use the combination of transfer type is 06 = Other Depository Deliveries and Asset Category is OPT = Option.
 - The committee agreed that the Deliverer and Receiver Customer Account Number fields should not be required if transfer type is 06 = Other Depository Deliveries and Asset Category is OPT = Option.
- Lydia will look into what rules are triggered by a submitter choosing transaction type 06 = Other Depository Deliveries?
- Ellen, Kevin, and Lydia have met twice with Dave Harrison of the OCC to discuss options-related open issues. There is a “RptID” tag on the FIX message from the OCC whose value is a ten-byte number. There are some open questions around this number, and other questions below, that we will address on the next call with the OCC on November 6. Open option-related issues for the OCC:
 - Is the “RptID” number only on FIX messages, or on all free deliveries at the OCC?
 - How often is the number reused? After a certain period of time, the number may no longer be unique.
 - Can Receiver and Deliverer Customer Account Number be added to the OCC output, both webscreens and FIX?
- Open option-related issues for the committee:
 - Should we include a timestamp in the TCN in CBRS, in addition to the RptID field?
 - If the RptID field won’t work for non-FIX transfers, what should the default TCN number be?
 - If a CBRS user clears for someone else, What if a firm custodies options through someone else? Who sends the cost basis? How does the underlying firm receive it? What if the OCC member is not CBRS eligible? This is an issue when delivering cost basis, or sending a request record. This is not an issue for receivers.
- At times a participant’s OCC number is different from the participant’s DTC number. To help resolve any discrepancies, the committee requested that a 6 byte field be added to the CBRS Master File for CBRS users to add their OCC number. DTCC would add the number to the Master File based on each user’s instructions. DTCC would not be responsible for the accuracy of the number, nor to update the number when a change occurs. Lydia will check whether this is possible.

- Previously there was an open question about how a CBRS user would distinguish ACATS-related options transfers from free deliveries at the OCC. The OCC provides a source code on its output that identifies ACATS and non-ACATS transfers.
- The committee discussed open issues related to fixed income, and did not yet come to a conclusion on the following issues (note: some of this information can be found in the free-form text field on the Fed message):
 - How does a CBRS user identify its counterparty at the Fed?
 - What if a firm settles Fedwire transactions through someone else? Who sends the cost basis? How does the underlying firm receive it? What if the Fed member is not CBRS eligible?
 - How do I tell the non-ACATS from the ACATS items for my expectancy file?
- There is an issue with broker-dealers expecting cost basis for Fund/SERV transaction # 13, but some funds are sending cost basis for transactions # 1 and 10. Committee members will continue to discuss this issue at the next ICI BDAC meeting.

III. Next Meeting: Tuesday, November 6, 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. Deliverer/Receiver Customer Account Number should not be required when Transaction Type is 06 = Other Depository Deliveries and the Asset Category is OPT.
6. 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.: 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). 8/28 Note: this proposal was submitted to DTCC Wealth Management, and tentatively will be scheduled for implementation during 2013.