Cost Basis Steering Committee Meeting   November 6, 2012, Noon – 2 p.m.
Minutes

I. <u>Approval of October 23, 2012 Meeting Minutes</u>
- The committee approved the minutes as written.

II. <u>Issues discussed</u>

- DTCC post storm update: DTCC's Manhattan office building is currently inaccessible. DTCC processing continues from other sites. One result of the storm is that the participant testing environment, the PSE or Participant Services Environment, is currently unavailable. Lydia did not have guidance as to when it would be available.
- The committee discussed the delay of the CBRS code implementation currently scheduled for 11/29/2012. There are three changes that were scheduled to be implemented: 1) requiring Tax Lot Current Cost for Options, Warrants, and Rights; and requiring the 2) Deliverer Customer Account Number and the 3) Receiver Customer Account Number for Transaction Type 56 = Networking transactions. The committee agreed that due to the minor scale of these changes, and the fact that the test environment is not available, that the 11/29 cut should be delayed. Lydia will work with her management to determine the date when the cut will be rescheduled, and will also issue an Important Notice about the schedule change.
- NFS will be sending ~62,000 corrected records in the near future. These records will correspond to fixed income transfers in 2012. Mary Rose asked whether transfer agents will be receiving any of these records: given that they are fixed income records, the likelihood of a transfer agent receiving one of these corrected records is small. Note as of 11/8/2012: at the meeting Ellen said she expected to send the records on Monday, November 12, but in a later email she said Fidelity is working on some other changes as well, and will send all the corrections together. She will share more details about when, and how many records, when she has more information.
- The committee discussed the issue of whether both sides are receiving the transfer data from an F53 record. On the record, there are two fields pertaining to this issue— Clearing/Settling Firm Number, and Receiving Firm Clearing/Settling Number. If both of these fields are filled out correctly, both sides of the transfer will receive the data. A subgroup of the committee will discuss this issue in more detail, so firms and funds have the same understanding of the process.
- The committee discussed the issue that occurs in the following scenario: a broker-dealer sends a record to a transfer agent, and leaves the CUSIP blank (this is standard procedure for a record from a broker-dealer to a transfer agent). The CUSIP happens to be undergoing a re-org. Because of the re-org, DTC has assigned one of its internal transfer agent numbers to the CUSIP. When CBRS looks up the transfer agent for the CUSIP on the security master file, it populates the Receiving Firm Number field with the internal transfer agent number. CBRS subsequently system rejects the record, because the DTC internal transfer agent number is not eligible for CBRS.
  The committee suggested that CBRS should be enhanced such that the system could know that, in the case when a CUSIP has a DTC internal transfer agent number assigned to it, CBRS should look up who the previous transfer agent was, and send the CBRS

record to that previous transfer agent. Lydia will discuss this functionality with her developers, and report back to the Committee about when this enhancement could be put in place.

- The committee discussed the suggestion from the CBRS Working Group, that CBRS should have more values in the Firm Reject Reason field. The committee recommended that Lydia invite the Working Group to submit suggestions for new Firm Reject Reasons, and the committee will discuss the suggestions and determine whether the reasons should be added to the field. The committee will evaluate the reasons based on frequency of the scenario, and whether the information would add value for the receiver of the Firm Reject Reason. Lydia will discuss this issue on the next CBRS Working Group call.
- The committee discussed a best practice around sending corrected cost basis when the basis is unknown. In the past problems have occurred when a submitter sends corrected, unknown, cost basis, and when the receiver gets the record that unknown basis wipes out what is in the receiver's system. Note as of 11/8: after the Steering Committee discussion, Lydia continued the conversation with the CBRS Working Group. On the Working Group call, we decided on this best practice: if you replay the basis on your books, and everything stays the same, do not send a record to the receiver. If you replay the basis on your books and anything is different, send a corrected record to the receiver.
- The committee discussed compensatory options, and what is required per the proposed regulations. The committee discussed open issues such as should there be an indicator that allows the deliverer to indicate that shares were purchased with a compensatory option, and is it possible for the actual option to transfer. These issues remain open.

III.   Next Meeting: Tuesday, November 27, 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).
7. When a security is assigned an internal DTC TA number, CBRS should look up the previous TA and send the record to that TA (or, possibly reject the record, but put the previous TA number on the output back to the submitting broker).
8. Add 'OCC number' field to CBRS User Master File

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; <u>not</u> 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. <u>Which value is more important, the ACATS Asset Sequence Number, or the CUSIP? Closed 11/29/2011.</u> 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. <u>Should CBRACT be a valid firm type for other transaction types? Closed 09/20/2011.</u> 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.

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.