Cost Basis Steering Committee Meeting Minutes November 15, 2011, Noon – 2 p.m.

I. Approval of November 8, 2011 Meeting Minutes
- The Committee approved the minutes as written.

II. Issues discussed
- Update on User Statistics: as of October 31, 2011: 306 companies have signed up to user CBRS: 32 banks; 101 broker-dealers; 99 mutual fund companies; 74 equity transfer agents/issuers. The 99 fund companies represent about 400 individual funds. 56 companies have tested the new code: 3 banks, 35 broker-dealers, 14 mutual fund companies, and 4 equity transfer agents/issuers. 130 companies are submitting data to production: 20 banks, 74 broker-dealers, 0 fund companies, and 36 equity transfer agents/ issuers.
- For the month of October 2011, out of all records submitted to CBRS, 5.8% were system rejected (rejected by the CBRS application). Out of all the records accepted by CBRS, 0.8% were firm reject records. [Note: this firm reject percentage is low. In other months, approximately 2 – 3 % of all records accepted by CBRS were firm reject records.]
- Lydia reminded the group that December 16, 2011 is the deadline to receive business requirements from the committee in order to include them in a mid-year 2012 release.
- IMS TID on MQ messages. On a recent CBRS Working Group call, the group discussed that it may be helpful to have the IMS TID on MQ messages in order to assist in matching CBRS records to the DTC asset movement. During this Steering Committee call, Kevin found an email he had received from DTCC saying the number would be available on MQ output in Q3 2010. Lydia will research whether the number is currently available, and if not, what kind of effort would be required to make it available.
- Possible enhancements to the Exempt Recipient Accounts indicator. The committee discussed the possibility of adding fields to the CBRS Master File to indicate what kind of exempt recipient accounts for which a user would want to receive cost basis. Possible list: C corporations, tax-exempt organizations, retirement plans, IRAs, government entities, foreign (non-US) government, REIT, RIC, financial institutions, registered broker-dealers. We discussed that a deliverer may not know in which of these categories an account belongs. The group discussed that it may be valuable to watch how the new Exempt Recipient Accounts indicator works in practice before adding another set of fields.

III. Next Meeting: Tuesday, November 22, 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. **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?
3. **Should the Deliverer and Receiver Customer Account Numbers be required for Networking Transactions?**
4. **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.
5. **Remove Purchase/Dividend Reinvestment Indicator?**
6. **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
7. **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.
5. The Deliverer Customer Account Number should be required for Transaction Type 04 = Conversions.

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.
6. Best Practice about how to populate the deliverer/receiver customer account numbers for mutual fund transfers. Closed 11/08/2011. This question came about as the result 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.