

**Cost Basis Steering Committee Meeting
Minutes**

November 22, 2011, Noon – 2 p.m.

I. Approval of November 15, 2011 Meeting Minutes

- The Committee approved the minutes as written.

II. Issues discussed

- Review of migration to Production. DTCC migrated the new CBRS code to production on the evening of November 17, 2011. Processing in the new code began on November 18, 2011. The changeover and new processing occurred without any errors.
DTCC will now send out the CBRS file at approximately 5:15 – 5:30 PM eastern time, about fifteen minutes earlier than it did in the old code: the new code is no longer dependent on ACATS end of day processing, so CBRS can send out the file earlier than it did under the old code.
76 CBRS users submitted data to production on 11/18/2011: 53 broker-dealers, 10 banks, 13 transfer agents, 0 mutual funds.
Approximately 12% of records sent to DTCC were system rejected. (See below for more information about system rejected records statistics.)
Not all CBRS users have switched over to using the new code. While DTCC recommends making the changes, CBRS will accept files in the old code.
Submitters may encounter higher system reject rates if they do not make the changes to conform to the new code. However, the committee discussed that CBRS users should not stop using CBRS if they have not made the changes. Records that pass the new rules will still be processed by CBRS and sent to the counterparty.
- Update on firm reject statistics. Last week, we discussed that for the month of October, out of all records successfully processed by CBRS, 0.8% were firm reject records. Further research: out of the top 40 CBRS users by volume, only 23 sent firm reject records in October. On average, 4.69% of the records sent by these 23 users were firm rejects. But, looking further, 13 of these users sent a very small number of firm reject records (less than 1% of the records sent by each user were firm rejects). Out of the 10 users who are actively using the firm reject record, on average, 9.71% of the records sent by each user are firm reject records. Point being, few CBRS users appear to be actively using the firm reject record, and out of those who are actively using it, about 10% of their submitted records are 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.
- *Question from a transfer agent: the agent is interested in setting up a separate Agent Number and CBRS account for one of its issuers, so the issuer can access its cost basis information. This is technically possible, but does it make sense from a business point of view?* The committee's response is that the TA should provide cost basis information to the issuer instead of segregating the issuer's business with a new Transfer Agent number and CBRS account number. Lydia will relay the answer back to the Transfer Agent.
- Parking Lot issue: Should the Deliverer and Receiver Customer Account Numbers be required for Networking Transactions? The committee discussed that the Deliverer and Receiver Customer Account Numbers should be required for Networking Transactions.

Note: a CBRS user may populate dummy numbers into the fields if they are required but the submitter doesn't know what the correct numbers are. This requirement is dependent on changes to Networking that are not yet scheduled. If the Networking requirements are determined, and the Networking development schedule allows for the requirements to be in place concurrently or before the CBRS mid-year deployment in late June/early July, *and* both the requirements and schedule are known before the CBRS requirements cut-off of December 16, 2011, DTCC will include this requirement in the mid-year release. If not, DTCC will include this requirement in the year-end 2012 release.

- Exempt Recipient Account Indicator enhancements.

One recommendation for an enhancement to the Exempt Recipient Account Indicator was to have a choice of values in the Master File that a CBRS user could chose, to indicate for which type of accounts the user wanted to receive basis. The possible list included: C corporations; tax-exempt organizations; retirement plans; IRAs; government entities; foreign (non-US) government; REIT; RIC; financial institutions; registered broker-dealers. At last week's meeting, committee members stated they did not have the ability to program to this level of detail.

On a separate call last week, some committee members discussed a different approach: to 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 (CBRS could systematically edit to this option). The ICI will conduct a poll to survey some fund companies about whether this approach will work for them. Funds are interested in this enhancement to help reduce the receipt of unwanted records, and the cost of receiving these records.

Some committee expressed reservations about this additional programming.

Scenario: User A requests basis from User B. User B sends the basis, which is for an uncovered account. Under the proposed enhancement, CBRS would system reject this basis back to User B. This system reject may prevent a user from fulfilling its need to respond to the request. Also, a small number of non-covered, non-retirement accounts are transferred from a firm to a fund, so the cost of the additional programming may outweigh the cost saved by implementing it.

This enhancement is, for now, a parking lot issue. The committee will revisit the issue after gathering some data about the use of the current version of the Exempt Recipient Accounts Indicator; and data about the volume cost basis passed on non-retirement non-covered accounts.

- More Firm Reject Reasons: on the CBRS Working Group call on 11/16/2011, callers expressed an interest in either a free-form text field to explain the reason for the reject, or the addition of new reason codes. Committee members expressed that they would not use or read a free-form text field. The people on the Working Group who brought up the issue were comparing CBRS to ACATS, which does use a free-form text field to explain rejects. This format does make sense for ACATS transfers, but CBRS records are processed differently. Given the volume of CBRS records, and the manual intervention that would be required to review free-form text fields, the committee does not feel that a free-form text field would be helpful. The committee discussed the possibility for additional field values, but the existing field values do cover all the scenarios the committee could think of. If the receiver can figure out

the reason for the reject, the receiver can probably apply the cost basis: having more granular firm reject reason codes would not improve CBRS processing.

III. Next Meeting: Tuesday, November 29, 2011 from Noon – 2 PM eastern

Parking Lot

1. **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 (CBRS could systematically 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.
2. **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?
3. **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?
4. **Remove Purchase/Dividend Reinvestment Indicator?**
5. **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
6. **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.
6. Add an edit that the Deliverer Customer Account Number and Receiver Customer Account Number should be required for Transaction Type 56 = Networking Transaction. [Note: include in mid-year 2012 release only if the Networking change that would help with this requirement will be in place before this change would be deployed to production; otherwise, wait until the year-end 2012 release.]

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.