

**Cost Basis Steering Committee Meeting
Minutes**

December 18, 2012, Noon – 2 p.m.

I. Approval of November 27, 2012 Meeting Minutes

- The committee approved the minutes as written.

II. Issues discussed

- Tentatively, the CBRS code will be available in the participant testing environment, the PSE or Participant Services Environment, starting on Monday, January 14, 2013. The deployment that was originally scheduled for November 29, 2012, has tentatively been rescheduled to the evening of Thursday, February 21, 2013. The first day the code will be available for customer input and output would be Friday, February 22, 2013. DTCC will publish an Important Notice as soon as these dates, or their alternatives, are definite.
- The committee discussed adding the OCC (Options Clearing Corporation) number to the CBRS Master File. Some firms have multiple OCC numbers, so the committee suggests that the new functionality include the ability to add multiple rows in order to accommodate these firms. Lydia will pursue designing the functionality following the same pattern as the ‘inactive records’—current ‘inactive record’ functionality allows multiple inactive records per each active CBRS record. CBRS users will need to instruct DTCC to set up their OCC numbers, again similar to the inactive record set-up. DTCC will not be responsible for adding, changing, or removing OCC numbers without customer instructions.
- It may be necessary to add a new transaction type for options transferred through the OCC, in order to distinguish them from options transferred via ACATS. Lydia has added this item to the list of future enhancements.
- The committee discussed what statistics would be helpful to understand CBRS activity as a whole, and how each user compares to that activity. Ideas include: number of system rejects and their corresponding reasons; number of firm rejects; providing each CBRS user with its number of system and firm rejects vs. aggregate system and firm rejects for all CBRS users; comparing number of system and firm rejects for each firm type (AGTNBR, DTCPRT, NSCPRT) vs. aggregate system and firm rejects for all CBRS users; system and firm rejects for broker to broker, broker to agent, broker to fund, etc.; number of corrected records sent. Lydia will work on providing aggregate data. Producing a report per CBRS user will require automation. Lydia has added this item to the list of future enhancements.
- A customer suggested that it would be helpful, for corrected records, to add a field that where the submitter could indicate the date when the original CBRS record was sent. Some committee members felt this would be helpful, however, as a result of discussion, the committee decided that the problem is created when certain users send CBRS records in error. The underlying problem should be fixed—we should not create a new field to address the symptom of the problem.
- A customer suggested that it would be helpful to add a field for the reason a submitter sends a corrected record. In this case, the customer said that he was having trouble with updates related to return of capital—in some instances, he was updated records twice. The committee felt that this suggestion was similar to the one in the bullet above—there

is an underlying problem where the submitter should not be sending the basis twice. The underlying problem should be fixed, not the symptom.

- The committee discussed the suggestion from a fund company, that a fund be able to firm reject a request record, in order to tell the firm who sent the record that it sent the record to the wrong party. In this context, this situation occurs when the broker sends the request to the fund instead of the counter broker, or to the fund instead of a trust company. The committee decided that the next step for this issue should be a discussion with the Vendor Working Group. This issue is not solely related to cost basis.
- The committee discussed an issue discussed on an earlier CBRS Working Group call: the customer had asked how to treat discrepancies between the Gift/Donation Indicator in ACATS, and the gift-related information in CBRS. The Best Practice is that gift information in CBRS supersedes the Gift/Donation indicator in ACATS.
- The committee confirmed that the following Best Practice in the CBRS User Guide is accurate: “For options, the ACATS settlement date is different from the Options Clearing Corporation (OCC) settlement date. Best Practices suggest that a submitter should send an Original record on ACATS settlement date, not the OCC settlement date.”

III. Next Meeting: Tuesday, January 8, 2013, Noon – 2 PM eastern

Proposed future enhancements

- 1) Date amortizing to (CCYYMMDD), CBRS will reject if date not in correct format. **Asset or Tax Lot record?**
- 2) Indicator for full or accreted **Should the values be F or A? Asset or Tax Lot record?**
- 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) Add ‘OCC number’ field to CBRS User Master File. Notes: some firms have more than one OCC number, which number should go on CBRS Master File? If we have multiple numbers on the CBRS Master File, how would you know where to send a CBRS record? ACATS has an OCC number on the ACATS Master File, for ACATS Member firms—this may not help for non-ACATS transfers. Membership Directory is available on the OCC website: <http://www.theocc.com/membership/member-information/>
- 6) May need new transaction type for OCC transfers in order to distinguish between options transferred through ACATS and options transferred through the OCC.

- 7) Deliverer/Receiver Customer Account Number should not be required when Transaction Type is 06 = Other Depository Deliveries and the Asset Category is OPT.
- 8) Settlement Date of Transfer should be required when Transaction Type is 06 = Other Depository Deliveries and the Asset Category is OPT.
- 9) 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).
- 10) New system reject reasons: bond does not have original cost; receiver does not want basis for retirement accounts; transfer control number does not match; account number is not related to transfer control number; CUSIP is not related to transfer control number
- 11) 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).
- 12) Reports similar to ACATS PIER reports

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 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.
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.