Cost Basis Steering Committee Meeting Minutes

Date: March 1, 2010
Time: 10 a.m. – Noon eastern time

I.   Approval of February 22, 2010 meeting minutes
   - The committee accepted the minutes as written

II.   Items to review
   - Trust indicator needed for mutual funds: DTCC will discuss this indicator internally to determine the best way to include this information in the record layouts
   - Option fields: if any of the fields pertaining to options (**Put – call indicator**, **Option symbol**, **Option expiration date**, **Option strike price integer**, **Option strike price decimal**) are populated for an asset that is <u>not</u> an option, CBRS will reject the record
   - **Total Original Cost**: field is required when **Position code** is **S = Short** and the security is covered by the legislation (the field is not required when the security is uncovered)
   - **Total current cost/Total average cost**
     - The committee agreed with the instructions added to the record layouts for both these fields for DRP plans: "For DRP shares where average cost has been used, the submitter should use the **Total Current Cost** field, not the **Total Average Cost** field. The **Total Average Cost** field is for Mutual Funds only."
     - As a result of these instructions, the receiver of the record will not explicitly know that the delivering firm has used the average cost lost disposition method. The committee agreed that this is OK.
     - Also, DTCC will change the record layouts to say that the **Total Average Cost** field will accept a blank value when the asset category type is <u>not</u> MFNM (instructions in the record layouts previously said that the field needed to be populated with zeros)
   - **Partial Cost Basis Indicator** changed to **Disposition method used**
     - The committee agreed with the changes to this field, but still questions whether this field should be included in the record layouts
     - DTCC will bring up this issue at the next CBRS Working Group meeting, since current users in that group had requested to keep the field in the record layouts
     - The committee discussed the following reasons for <u>not</u> including this field in the record layouts:
       - The receiving firm does not need to know the disposition method used by the delivering firm
       - The new IRS regulations do not allow for all the methods included in the values for this field, so the field may not be compliant with the new regulations

- **Uncovered reason code**: the instructions for the record layouts should include that if the security is covered by the legislation, this field should be left blank
- **Output record layouts**: The CBRS output record is based largely on the input record. The main difference is the output record includes status fields which contain three "System Action Codes":
  - 1 = System Accepted - Transaction submitted correctly
  - 2 = System Modified - Transaction was submitted correctly and modified by CBRS
  - 3 = System Rejected - Transaction submitted incorrectly
  - These status fields will help a submitter determine why CBRS has rejected an input record
  - DTCC will distribute the output record layout to the committee, once it has been written
- **System reject** vs. **Participant reject**
  - The discussion of output above led to a discussion of the difference between the record that is rejected by CBRS because the input does not match system edits; and a "reject" record—meaning when the **Record content indicator** field is populated with a value of **03 = reject record**
  - ACATS refers to the second condition as a "Participant reject." DTCC will change the CBRS record layouts to reflect this distinction. DTCC will also include language in the record layout to clarify the difference
- Required Fields for reject/request messages
  - The committee reviewed the list of required fields for reject/request records from the minutes of the February 1st meeting. After the review, the committee decided on the following fields as required for reject/request record content types:
    - Record type
    - Record length
    - Record content indicator
    - Transaction type
    - Control Number
    - Receiving Firm Identifier
    - Receiving Firm Identifier Type
    - Receiving Firm Participant Number (except when Record Content Indicator is 04 = Request record, and the transaction is 26 = DWAC Deposit, 27 = Certificate Deposit, 28 = DRS Profile/DO, or 29 = DWAC Deposit Reserve Shares, 30 = DRS – ESPP, 31 = DRS – ISO (i.e., the transactions where CBRS performs the look-up))
    - Submitting Firm Identifier
    - Submitting Firm Identifier Type
    - Submitting Firm Participant Number

- ISIN Security Issue ID (CUSIP) (not required for transaction type 01 = ACATS and 41 = Direct presentation)
- Asset Description is required if ISIN Security Issue ID is blank (except for transaction type 01 = ACATS)
- Date transfer was initiated <u>or</u> Settlement date of transfer
- Total position quantity
- Reject reason code: required for reject messages only
  – The committee changed the first value for the reject reason code to "Receiver cannot apply received cost basis." This value is general enough that it is possible to make this field required
  – DTCC will change the name of this field to "Participant reject reason code"
  – Best practices should include that a user should wait until the fifteen day period is over before sending a request message

III.   <u>Next Steps</u>
- The committee had an open discussion about the next steps. Now that the record layouts are complete, based on the information we know at this time, a few next steps emerge: communicating the system changes to current and new users; and developing best practices
- DTCC would like the committee to sign-off on the record layouts, and we discussed what the timing of the sign-off should be. From what groups, if any, should the committee seek feedback on the layouts? This remains an open question
- How should DTCC communicate system changes to the industry? Possible answers to this question include:
  o Webinars
    - Webinars could be one-way, meaning no questions during the session, but attendees can submit questions electronically to be answered later—perhaps via Frequently Asked Questions posted on the internet
    - Set the scope in the beginning of the webinar, explain that CBRS supports the passage of cost basis information, not the calculation
  o In-person industry meetings
  o Conference calls
  o Groups that Steering Committee members represent, such as the ICI and the STA
  o A timeline, developed by the committee, to set industry expectations
  o Assemble and distribute Best Practices, Frequently Asked Questions, and User Guides

- - Focus the calls/meetings/webinars for specific audiences, e.g. transfer agents, broker-dealers, banks, mutual fund companies, current users, new users
- DTCC will discuss communication methods internally, and follow-up with the committee
- Our next meeting will be on Monday, March 1st, from 10 AM to 1 PM eastern
  - At this meeting the committee will discuss communication of record layout changes, and begin the process of defining and assembling best practices