Cost Basis Steering Committee Meeting Minutes
April 23, 2013, Noon – 2 p.m.

I. Approval of March 26, 2013 Meeting Minutes

- The committee approved the minutes as written.

II. Issues discussed

- The committee discussed the timing of CBRS releases between now and January 1, 2015. Lydia has been planning a release of a few options-related changes for November 2013. In light of the release of final regulations, the committee decided to cancel this release. Instead, tentatively, there will be two releases in 2014, one mid-year and another at the end of the year.
- For the time being, we will use the time on the CBRS Working Group call to talk about CBRS; and about the regulations, if callers have questions about them. If the time comes when there is not enough time to talk about both CBRS and general questions about the regulations, it may be necessary to start a separate call focused on the regulations.
- The committee discussed excerpts from the final regulations related to CBRS. Please see the lists below of open issues and future enhancements for fixed income, options, and a category for miscellaneous requirements.

III. Next Meeting: Wednesday, May 8, 2013, Noon – 2 PM eastern

IV. Fixed income requirements

- Open Issues
  - Elections. Note: there may need to be a new field for each election, with the values Y and N.
    - Election to accrue market discount using a constant yield
    - Election to include market discount in income currently
    - Election to treat all interest as OID
    - Spot rate election for interest accruals with respect to a covered debt instrument denominated in a currency other than the U.S. dollar
  - Current cost = adjusted basis = add asset category requirements to this field
  - New field for Yield?
  - Date amortizing to (CCYYMMDD), CBRS will reject if date not in correct format. **Asset or Tax Lot record?**
    - Note: Either both Yield and Date amortizing to should be required, or neither, but not just Yield.
  - Indicator for full or accreted **Should the values be F or A? Asset or Tax Lot record?**
  - 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.

- Any market discount that has accrued as of the transfer date (as determined under §1.6045-1(n))
- Any bond premium that has been amortized as of the transfer date (as determined under §1.6045-1(n))
- Any acquisition premium that has been amortized as of the transfer date (as determined under §1.6045-1(n))
- 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?
- Open issues for Fed items:
  - How does a CBRS user identify its counterparty at the Fed?
  - What if a firm settles Fedwire transactions through someone else? Who sends the cost basis? How does the underlying firm receive it? What if the Fed member is not CBRS eligible?
  - How do I tell the non-ACATS Fed items from the ACATS items for my expectancy file?

- New Requirements
  - Price paid by the customer = add asset category requirements to Original Cost field
  - Acquisition date = add asset category requirements to this field

V. **Options requirements**

- Open Issues
  - Some firms have more than one OCC number. If we have multiple numbers on the CBRS Master File, how would you know where to send a CBRS record? Membership Directory is available on the OCC website: http://www.theocc.com/membership/member-information/
  - What if a firm custodies options through someone else? Who sends the cost basis? How does the underlying firm receive it? What if the OCC member is not CBRS eligible?

- New Requirements
  - New Transaction Type for OCC non-ACATS Transfer
  - TCN: add a requirement for 30 byte number, or a Best Practice?
  - Submitting/Contra Firm Number must be the Firm Number that is CBRS eligible, not the OCC firm number. For example, if Pershing's OCC number was 123, the Submitting/Contra Firm Number to use in CBRS is 443, not 123. Submitters must translate the OCC number to a valid CBRS number in the cases where the OCC number differs from the user's CBRS-eligible number.
  - Will Firm Type NSCPRT ever be allowable for new Transaction Type 08, or will both sides of the OCC non-ACATS transfer always be DTC participants?
  - Is ISIN required for new transaction type 08?

- Confirm: Option-description fields should be required for 08 (Put-Call indicator, Option Symbol, Option Expiration Date, Option Strike Price Integer, and Option Strike Price Decimal)
- Confirm: Asset Category OPT is required for Transaction Type 08.
  - Is any other Asset Category eligible for 08? Warrants or Rights? Do Warrants or Rights transfer at the OCC?
- Based on the changes the OCC is making, I think this is no longer true: Deliverer/Receiver Customer Account Number should not be required when Transaction Type is 08 = OCC non-ACATS transfer.
- Confirm: Settle Date of Transfer should be required when Transaction Type is 08
- What should the Best Practice be for identifying options that are traded on a non-US exchange? Should the submitter fill out the option fields as well as the ISIN?
- Add OCC number 'child' record to Master File, building on current Active/Inactive functionality. See example below.

CBRS Account Name	Firm Account II	Firm Account Type	Search Firm ID	Search Fir	Active/Ina	Inactive account type
PERSHING LLC	443	DTCPRT	443	DTCPRT	A	
PERSHING LLC	443	DTCPRT	443		I	OCCALT
PERSHING LLC	443	DTCPRT	443		I	GOVALT
PERSHING LLC	443	DTCPRT	234		I	OCCALT
PERSHING LLC	443	DTCPRT	456		I	OCCALT
PERSHING LLC	443	DTCPRT	789		I	OCCALT
PERSHING LLC	443	DTCPRT	858		I	OCCALT
RAYMOND, JAMES & ASSOCIATES, INC.	725	DTCPRT	725	DTCPRT	A	
RAYMOND, JAMES & ASSOCIATES, INC.	725	DTCPRT	780	DTCPRT	I	CBRALT
RAYMOND, JAMES & ASSOCIATES, INC.	725	DTCPRT	780		I	OCCALT
ROBERT W. BAIRD & CO., INC.	547	DTCPRT	547	DTCPRT	A	
ROBERT W. BAIRD & CO., INC.	547	DTCPRT	784		I	GOVALT

  - Brokers will need to inform DTCC to create one or more child records containing their OCC number(s). DTCC can assist in identifying and reaching out to brokers to let them know that they need to inform DTCC. Contraparties will need to consult the Master File to know how to map the OCC number to the eligible CBRS number.

VI. **Miscellaneous requirements**

1. 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?**
2. 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
3. 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.**

4. 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).
5. 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).
6. 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
7. Reports similar to ACATS PIER reports
8. Add Tax ID Number/Social Security Number field to the CBRS records—is this possible from a privacy standpoint?
9. New editing rules for Acquisition Date of Tax Lot field—restrictions against certain default dates, such as 19020101
    - CBRS could know holidays only back to 2003
    - Proposed rule: reject acquisition date of January 1 of any year + cost basis less than or equal to $1.00?
10. Add name of participant as additional criteria for the participant search feature.

Parking Lot

1. **Can we consolidate some of the asset categories, such as use OPT for options, warrants, and rights, and remove the types WAR and RGT?** Waiting for final fixed income/options regulations to further discuss this question.
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. **If brokers use Networking Transaction Type 4 for 'one-off' transfers, what are the implications for CBRS? Will participants program their expectancy files to include these transfers?**
6. **Should the Receiver Customer Account Number be required for Conversions?**
7. **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.
8. **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?
9. **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.]
10. **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. Compensatory options: 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. Closed 04/23/2013: Final regulations say No to this question.
2. 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.
3. 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.
4. 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.
5. 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.
6. 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.
7. 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.
8. 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.

9. 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.
10. "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.
11. 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.