

## Cost Basis Steering Committee Meeting Minutes

November 27, 2012, Noon – 2 p.m.

### I. Approval of November 6, 2012 Meeting Minutes

- The committee approved the minutes as written.

### II. Issues discussed

- DTCC post storm update: DTCC's Manhattan office building is still inaccessible. DTCC processing continues from other sites. The PSE, or Participant Services Environment, is still unavailable for testing. Lydia did not have guidance as to when it would be available.
  - The committee agreed on a new Best Practice: if you replay the basis on your books, and everything stays the same, do not send a record to the receiver. If you replay the basis on your books and anything is different, send a corrected record to the receiver. Lydia will add this Best Practice to the CBRS User Guide.
  - The committee agreed with the existing corrected records Best Practice: "From the receiver's point of view, if a contra party receives corrected basis but has not first received original basis for the lot, it should treat the basis as original and apply the basis appropriately (i.e. a contra party should not firm reject a corrected record that does not have a corresponding original record)."
  - Suggestions for new Firm Reject Reasons.
    - Bond does not have original cost. This may become a system edit, the committee is waiting for final regulations to determine whether this is an edit or a Best Practice.
    - Account not subject to cost basis regulations. The committee decided against including this reason: while an account or position may not be subject to the IRS regulations, there may still be a reason to send cost basis. Some firms track cost basis for assets such as alternative investments, or bonds prior to their covered date, so it may be appropriate to send basis in these cases.
    - Receiver does not want basis for retirement accounts. This may be a valid reason to add. However, we do already have an indicator on the Master File where users can state whether they want to receive basis for retirement accounts. The committee will continue to discuss whether adding this reason adds value to the passed data.
    - More reasons committee is considering adding: transfer control number (TCN) does not match; account number does not match TCN; CUSIP does not match TCN
- On a higher level, the committee discussed whether this is the right time to add more Firm Reject Reasons. There is concern about identifying reasons that will truly add value, and about whether firms will program to consume and react to these reasons. The committee will continue to discuss the reasons, but perhaps delay their implementation beyond the next release. Lydia will do some analysis on both system rejects and firm rejects to see whether there are any patterns that could be helped by new reject reasons or Best Practices.
- The committee discussed an issue a transfer agent is having with receiving more basis from the contra broker than they are expecting. The issue did not sound familiar to

committee members. The TA will be on tomorrow's CBRS Working Group call to discuss specific examples, so the discussion will continue there.

- The committee discussed open issues related to options. Ellen, Kevin, and Lydia had a series of calls with the Options Clearing Corporation (OCC) to discuss possible enhancements to OCC output to help with cost basis transfer. The OCC will not be making any changes in 2013 to support this effort. As a result of these conversations, the OCC identified a field on their output that contains an 8-byte number, the 'RptID', that, when used in combination with other data elements, can create a unique transfer control number. The committee's recommendation for the default format for an identifier for options is: Julian Date of settlement date of option (3 bytes) + last digit of year of the settlement date (1 byte) + Rpt ID (8 bytes).
- The committee agreed that the 'Settlement Date of Transfer' field should be required when the Transaction Type is 06 = Other Depository Deliveries and Asset Category = OPT for options.

III. Next Meeting: Tuesday, December 18, 2012, Noon – 2 PM eastern

### **Proposed future enhancements**

1. Date amortizing to
2. Indicator for full or accreted
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. Deliverer/Receiver Customer Account Number should not be required when Transaction Type is 06 = Other Depository Deliveries and the Asset Category is OPT.
6. Settlement Date of Transfer should be required when Transaction Type is 06 = Other Depository Deliveries and the Asset Category is OPT.
7. 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).
8. 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).
9. Add 'OCC number' field to CBRS User Master File

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

## 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 CBRACK 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 CBRACK to pass basis on an ACATS transaction, so this firm did not pursue this option. However, this situation led to the

question of whether CBRACK 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 CBRACK 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.