

## Cost Basis Steering Committee Meeting

### Minutes

January 10, 2012, Noon – 2 p.m.

#### I. Approval of December 13, 2011 Meeting Minutes

- The committee approved the minutes as written.

#### II. Issues discussed

- The committee revisited the discussion of the existing best practice that CBRS users should not firm reject a request record. [Please note that it is possible to firm reject a request record: CBRS does not compare a firm reject record to any previous records, so the system does not know what kind of record is being firm rejected; therefore, there is no system reject in place to prevent a user from firm rejecting a request.] One concern was cost: the submitter does not pay for a firm reject record, the receiver pays \$0.05 per record. Some committee members felt that receiving a firm reject on a request record would let a user know that they had sent the request to the wrong place. After further discussion, the consensus was that in this scenario the firm reject would not provide enough information to be helpful. The receiver of the firm reject would not know the reason for the reject, so he/she would not know how to act on it. The committee recommended that a CBRS user should disregard a request that he/she receives in error, with the qualification that if the problem persists the user should contact the counterparty to discuss the reason for the repeated unmatchable requests.
- The committee discussed the passing of cost basis on conversions in merger situations, e.g. when Broker 123 buys Broker 456, and Broker 456 ceases to exist. The challenge for users is that once Broker B ceases to exist, and is removed from the CBRS Master File, users do not know where to send cost basis, such as corrected records. The committee came up with a possible solution: perhaps a new field, or multiple new fields, could be added to the CBRS Master File, called the “Alternate ID Number” field. The CBRS user who has assumed the business of the user that went out of business, could instruct DTCC to add the out-of-business user’s number to this field. For example, using Broker 123 and Broker 456 from the scenario above, Broker 123 would instruct DTCC to add number “456” to this ‘Alternative ID Number’ field. As a result, CBRS users looking to send cost basis to Broker 456 would know to send the records to Broker 123. This proposed functionality includes the ability to add multiple ID numbers. Lydia will check with her development group about whether this solution can be implemented, and if so, when.

- The committee discussed the processing of records for ‘CBRS only’ accounts. There are some accounts on the CBRS Master File that are set up as ‘CBRS-only.’ For example:

CBRS #	Type	CBRS Account Name	Firm Account ID	Firm Account Type	CBRS Account Start Date	Exempt Recipient
0000A19Y	CBRACT	USAA TRANSFER AGENCY COMPANY			1/2/2012	N

When a participant needs to send cost basis to a ‘CBRS only’ counterparty, it is difficult to know what number to populate in the Contra Firm Number field. The proposed solution in the bullet above may also help with this issue.

- The committee discussed adding a best practice to the current cost field for noncovered average cost mutual fund lots. For example, if an asset transfer for a fund includes five lots, one with a cost of \$10, one with a cost of \$12, and three that are unknown, the suggestions is that the submitter should send three tax lot records, one with a Tax Lot Current Cost of \$10, another with a Tax Lot Current Cost of \$12, and a third with Tax Lot Current Cost of \$0 and a Zero Basis Indicator of 02 = Unknown. The committee discussed the concern that it is difficult to prescribe a blanket rule for populating the Tax Lot Current Cost field because there can be great variety in the kind of activity that occurs in the account. At the next meeting, the committee will review language to add to the Best Practice in the Tax Lot Current Cost field in the record layouts to help clarify the issue: “For a noncovered average cost position that has a lot with unknown basis, populate this field with the actual basis on each known lot. Combine the unknown lots into one tax lot record, and populate this field with 0 and the **Zero Basis Indicator** field with **02 = Unknown.**”

III. Next Meeting: Tuesday, January 17, 2012, Noon – 2 PM eastern

### Parking Lot

1. **Should the Receiver Customer Account Number be required for Conversions?**
2. **“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?
3. **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.
4. **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?
5. **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?

6. **Remove Purchase/Dividend Reinvestment Indicator?**
7. **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 earlier 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. The following fields should be required for request records (they are currently conditional):
  - Option fields (required only for Asset Category = OPT): Put/call indicator; Symbol; Expiration Date; Strike Price Integer; Strike Price Decimal
  - Asset Category
  - Total Position Quantity
  - Position Code
7. Add an edit that the Deliverer Customer Account Number and Receiver Customer Account Number should be required for Transaction Type 56 = Networking Transaction. [Note: this requirement will be included in the year-end 2012 release.]

### **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 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.