

Cost Basis Steering Committee Meeting Minutes

December 13, 2011, Noon – 2 p.m.

Meeting Attendees

Bob Linville — Broadridge
Cynthia Jones — STA
Derek Yen — Edward Jones
Janet Olson — Beta
Jeff Naylor — Sungard
Joan DiBlasi — AFLAC
Joe Clemente — DTCC

Grant Smith — SEI
Kevin McCosker — Pershing
Lydia Midwood — DTCC
Norm Lopez — Disney
Yana Granovskiy — DTCC

I. Approval of December 6, 2011 Meeting Minutes

- Lydia noted that she had an old version of the Parking Lot in the minutes from the December 6 meeting. She will update the Parking Lot and send a revised version of the minutes.
- Otherwise, the committee approved the minutes as written.

II. Issues discussed

- Lydia reminded the group that December 16, 2011 is the deadline to receive business requirements from the committee in order to include them in a mid-year 2012 release.
- The first six requirements listed in the “Future Enhancements” section of these minutes are scheduled to be included in the July 2012 release. The seventh requirement on that list is dependent upon changes to the Networking system that may not be in place by July 2012. Lydia will confirm with Yana, and then determine the timing of the seventh requirement.
- The committee discussed the “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? The committee decided to add this issue to the parking lot until there is some clarification of the proposed regulations.
- The committee revisited the discussion of new requirements for CBRS based on the recently released proposed IRS regulations. Below is a list of new fields that may be necessary:
 - Either both Yield and Date you’re amortizing to should be required, or neither, but not just Yield.
 - Indicator for Equity-based Compensation Arrangement.
 - 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.
- Customer issue. Scenario: A request record submitted by a broker-dealer was system

rejected last week. It was a record sent from the B/D to a transfer agent, on a security that had undergone a mandatory cash reorg on 11/28/2011. CBRS put TA # 00008 on the record, a DTC internal TA number used for reorg'ed securities, and system rejected the record back to the B/D. It may be necessary to pass cost basis, depending on the context. It may be possible for CBRS can put the old TA number on the record. Lydia will research this option.

- Customer issue: PNC is set up as both 2616 DTCPRT and 2616 NSCPRT on the CBRS User Master File. One company should not be listed twice, once under type DTCPRT and once under type NSCPRT. This issue may be caused by a lack of understanding on the customer's side: they may have signed up for both numbers in error. Lydia will follow up with DTCC's Relationship Management department to resolve the issue.
- Norm brought up the issue that he has received a large number of request records from one broker, for assets transferred between December 2010 and November 2011. Other committee members have seen this type of activity as well. CBRS users should not 'catch up' and send old records, but some users are choosing to do so.

III. Next Meeting: Tuesday, January 10, 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: include in mid-year 2012 release only if the Networking change that would help with this requirement will be in place before this change would be deployed to production; otherwise, wait until 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 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 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.