

B #:	17623-22
Date:	November 9, 2022
To:	All Participants
Category:	Agent Services/Trustees, Corporate Action Service Updates, Issuer Services Service Updates, Global Tax Services Update, Underwriting Service Updates
From:	DTC Asset Services
Attention:	Manager/Corporate Trust Officer, Operations, Reorg & Dividend Managers
Subject:	New DTC MMI Program Requirements Income Tax Classifications

Summary:

DTC is enhancing the DTC Money Market Instrument program (“DTC MMI Program”) to require Issuing Paying Agents (“IPAs”) to provide DTC with IRS Income Codes¹ for each issuance. This enhancement is necessary to allow for securities to be part of the DTC MMI Program that make coupon payments that can be classified as something other than interest for U.S. Tax purposes. Please refer to DTC Important Notice [B# 16064-21](#) for more background.

Problem Statement:

IPAs, who act on behalf of issuers, have occasionally issued securities through the DTC MMI Program that make coupon payments that can be classified as something other than interest for U.S. Tax purposes. DTC’s MMI Program does not have the functionality to obtain the information necessary to provide its services to Participants when such a security is deposited. Pursuant to DTC Rule 5, Section 1, DTC will not accept a security as a DTC eligible security if DTC cannot obtain information regarding the security necessary to permit it to provide its services to Participants.

Interim Solution:

Please refer to DTC Important Notice [B# 16064-21](#) for the interim process in identifying securities that are treated as paying anything other than interest for U.S. tax purposes.

Systemic Solution:

To provide a streamlined service to our clients, DTC will add a field on the MMI Issuance Process so that IPAs can provide DTC with IRS Income Codes for each issue. This will be a required field. The field position number is 855. The length 2 is Characters and the Field name = MMI IRS INCM-CD.

¹ A list of IRS Income Codes can be found in Appendix A of the Internal Revenue Service’s Instructions for Form 1042-S currently located at <https://www.irs.gov/pub/irs-pdf/i1042s.pdf>

855	2	Character	MMI-IRS-INCM-CD	<p>MMI IRS Income code. Values are:</p> <ul style="list-style-type: none"> • 01 Interest Paid by US <u>Obligors</u> - General • 04 Interest Paid by Foreign Corporations • 23 Gross Income - Other • 29 Deposit Interest <p>Entry of the IRS Income Code is Required <i>except</i>:</p> <ul style="list-style-type: none"> • When POS 27 MMI-IN-PROD-TYPE = E or G (Non-Tax Muni), MMI-IRS-INCM-CD is set to spaces • When POS 27 MMI-IN-PROD-TYPE = F or H (Taxable Muni), MMI-IRS-INCM-CD is set to 01 • No values are needed to be input if E, G, F, or H. The values E and G are systemically set to spaces, and F and H are set to 01.
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The applicable IRS income codes to be used upon issuance are as follows:

- IRS Income Code 1 = Interest paid by U.S. obligors – general
- IRS Income Code 4 = Interest paid by foreign corporations
- IRS Income Code 23 = Other Income
- IRS Income Code 29 = Deposit Interest

If an Issuing Paying Agent does not provide an IRS Income Code or if they provide an IRS Income code that is not referenced above, they will receive the following error message.

MMI Error Codes			
Field Name	Field Code	Error Code	Description
IRS Income Code	BAHA	9AAE	<ul style="list-style-type: none"> • IRS Income code is invalid.
		9AA5	<ul style="list-style-type: none"> • IRS Income code is required and must not be blank.

Please note that IRS Income Code is not required for the following municipal securities:

- E** = Muni Commercial Paper - Tax Exempt
- F** = Muni Commercial Paper – Taxable
- G** = Muni CP – Tax Exempt VRDO/CP mode
- H** = Muni CP – Taxable VRDO in CP mode

These Municipal securities will have defaulted values assigned to them.

Deployment Dates:

Beginning November 15, 2022, the new IRS Income Tax Code field will be available for IPAs to test in DTC's User Testing (PSE/UTOR) region. IPAs are strongly encouraged to test the below scenarios, and any other scenarios you may think of prior to the production deployment date of January 19, 2023.

Testing Scenarios:

1. Create an issuance with the 1 of the 4 IRS Codes (1,4,23,29). The expectation is that the system will accept the issuance.
2. Create an issuance without the IRS Code populated. The expectation is that the system will generate a BAHA 9AA5 error code stating the IRS Income Code is required and must not be blank.
3. Create an issuance with an invalid IRS Code (Not 1 of the 4 mentioned above). The expectation is that the system will generate a BAHA 9AAE error code stating that the IRS Income Code is invalid.
4. Create an issuance for a municipal security (**E** = Muni Commercial Paper - Tax Exempt, **F** = Muni Commercial Paper – Taxable, **G** = Muni CP – Tax Exempt VRDO/CP mode, **H** = Muni CP – Taxable VRDO in CP mode). The expectation is that the system will accept the issuance because of the defaulted values that will be applied.

Below is the update link to the MMI Issuance Transaction Input Function User's Guide.

<https://www.dtcc.com/-/media/Files/Downloads/Settlement-Asset-Services/CCF/mmi/01MMICv2.pdf>

IPAs requiring further assistance with the coordination of this effort should contact the DTC Integration Team.