CCMA ACMC Canadian Capital Markets Association Association canadienne des marchés des capitaux

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T+1 Communications and Education Working Group (CEWG)

Proposed Agenda

Tuesday, February 14, 2023 – 11:00 am ET/8:00 am PT

i.	**Welcome, introductions**	**All**
ii.	**Draft minutes of January 10 CEWG Meeting (*Attachment 1)***	**Members**
	i. Review/approve	
	ii. Review matters arising from minutes	
iii.	**New T+1 news/information**	**Members/CCMA**
	i. Member/association updates	Members
	ii. Canadian update	Keith
	iii. U.S. update	Keith
	iv. International news	Members/Staff
	v. Event/article/other updates	Barb
iv.	**For review/amendment**	**Members**
	i. Explaining Canada's decision proposing later match time than U.S. ***(Attachment 2)***	
v.	**For discussion**	**Members**
	i. Key messages if SEC adopts earlier deadline ***(Attachment 3)***	
	ii. Draft FAQs ***(Attachment 4)***	
iii.	**Other issues as raised**	**Members**
iv.	**Summary of action, next steps, and next meeting (March 14)**	**Staff**

Attachment 1

T+1 Communications and Education Working Group (CEWG)

Draft Minutes

Tuesday, January 10, 2023 – 11:00 am ET/8:00 am PT

1. **Welcome and introductions**
   Note: See attached list of meeting participants, agreements, and action items.

2. **Draft minutes of December 13, 2022 CEWG Meeting**
   The draft minutes of the December 13 CEWG meeting were accepted without change. The items identified for action had been completed or were on the day's agenda, ongoing, or scheduled for the future.

3. **New T+1 news/information**

   i. Member/association updates

   Pat (CETFA) had provided a list of events (attached to the agenda) and members were encouraged to provide any additional ones as they became known, as well as to consider inviting Keith to speak at association events if relevant or for a single-purpose session. The CCMA thanked her for this and for her offer to help place an article in a quarterly industry magazine. **Pat agreed** to help provide information to the CCMA about authoring a T+1 article for the Canadian Institute of Financial Planners' (CIFP's) April edition.

   Dexter and Kyle, representing CASLA, said that publication by the U.S. of an updated T+1 Playbook with 11:59 p.m. (ET) on T announced as a securities loan recall best practice would be discussed with a CASLA committee at the next meeting, which would be welcome.

   Ahren (PIAC) confirmed that the CCMA would be preparing a webinar for the PIAC membership for the next month or so (PIAC also had an Annual Conference on May 11 and 12, 2023). **Barb agreed** to confirm possible dates and develop a presentation.

   Matthew (FMFD) shared a financial event listing (https://fineventcentral.com). **Matt later agreed** to e-introduce Barb to the heads of the AIMA and CAASA associations to help expand industry awareness.

   Barb mentioned two upcoming events: a January 26 presentation by CEWG member Mark Austin providing a Buyside perspective at a DTCC Advisory Council (not open to the public) and a January 31 DTCC T+1 online symposium open to anyone (https://web.cvent.com/event/6f690c18-3a39-452e-b8b7-

697de7c354f6/regProcessStep1?RefId=Invite1%2B2&rp=6d308b76-cca6-43e1-a7c7-d554b46aebe3).

ii. Canadian and U.S updates

There still was no update regarding the SEC rule or proposed T+1 implementation date. The CCMA understood that DTCC and SIFMA had been meeting with the SEC on matters including ETFs.

Importantly, the CSA had issued releases on both National Instruments 24-101 (institutional trade matching) and related to 81-102 (investment funds) on December 15, 2022. The CCMA expects to respond to NI 24-101 regarding the matching deadline and the frequency of requested reporting time periods. In answer to a question, **Frank agreed** to connect with colleagues to understand the reference to Investment Funds in titles/references to NI 81-but to mutual funds in the staff notice.

While segregated funds are not regulated, Barb had contacted Brent Mizzen (CLHIA) and Russ White to discuss implications for insurance products that are not subject to regulation. Fundserv is expected to survey some of its mutual func company members for any indication of the number of funds that may/may not move from T+2 to T+1.

Canada and the U.S. expect to have test plans released in January. Barb also mentioned that as buyside firms seem less engaged to date with some noteworthy exceptions, the CCMA has set up a Buyside Task Force composed of buyside firms, the four custodians, and one or two dealers.

iii. International news

Barb agreed to provide a link to a recent LinkedIn posting indicating some skepticism about North America's ability to meet 2024.

Barb said reminders will be sent early in the New Year. More buyside and wealth management feedback was seen as particularly important.

4. For discussion

i. ***January 2023 newsletter topics:*** Members briefly discussed topics for the next newsletter, with the lead to be the CSA releases.

ii. ***Draft FAQs:*** Barb asked members to review and comment on the draft FAQs, which focused on the implications of Staff Notice 81-335; **Pira agreed** to ask Pamela to review the FAQs. **Action: Members** to review and provide comments on the proposed FAQs.

iii. ***CEWG Issue Log:*** Barb asked members to review the CEWG issue list for any changes that should be made. **Action: Members** to review and provide comments on the CEWG issues list.

5. **Other issues:** None raised

6. **Next meeting:** February 14

7. **Next meeting:** Tuesday, February 14, 11:00 am. ET

Agreements	
1.	Members accepted the draft minutes as written.

Action Items

#	Description	Who	Status
1.	Provide information to CCMA about authoring T+1 article for (CIFP's) April edition	Pat	On hold pending T+1 date
2.	Confirm possible dates and develop a presentation for PIAC	Barb	Underway
3.	Connect Barb to heads of AIMA and CAASA (associations) to help expand industry awareness	Matt	Done
4.	Ask colleagues to explain reference to investment funds in titles/NI 81-102 references, but to mutual funds in 81-335	Frank	Moved LRWG
5.	Provide members with link to article re perception that North America may not make a 2024 implementation date	Barb	Done
6.	Comment on draft FAQs	Pamela; Members	Done
7.	Provide any comments on the updated CEWG issues list	Members	Done
From preceding meetings			
8.	Follow up with the IIAC for an IIAC member to help co-ordinate communications with the broker-dealers.	Barb	Efforts ongoing
9.	Extend media outreach once more concrete information is available	CEWG	Discuss in future
10.	Help on the Buyside Checklist	Travis	TBD
11.	Manage podcast or blog/Qs&As re buyside liquidity issues	Merici	TBD
12.	Draft article for ACPM	Barb	March 15
13.	Draft article for CIFP	Barb	March 15
14.	Prepare an outline/draft generic T+1 presentation	Barb	Underway

Meeting Attendees

Paniz	Ghazanfari	Advocis
Jason	Lau	CAAT
Dexter	Gall	CASLA: Can. Securities Lending Assn./RBC
Kyle	Kolasingh	CASLA: Can. Securities Lending Assn./RBC
Umair	Azam	CBA: Canadian Bankers Association
Pat	Dunwoody	CETFA: Canadian ETF Association
Halyna	Fenkanyn-Hawryshko	CIBC
Stuart	Schady	CSE: Canadian Securities Exchange
Guylaine	Paquet	Desjardins
Matt	Latimer	FMFD: The Federation of Mutual Fund Dealers Canada
Pira	Kumarasamy	IFIC: Investment Funds Institute of Canada
Frank	Lacroce	OSC: Ontario Securities Commission
Annetta	Ho	OSC: Ontario Securities Commission
Ahren	Estabrook	PIAC: Pension Investment Association of Canada/OTPP
Brent	Blake	State Street
Aamir	Shahzad	TD Securities
Dave	O'Marra	Torstone Technology
Barb	Amsden	CCMA: Canadian Capital Markets Association

Attachment 2

DRAFT FOR DISCUSSION

FAQs re Matching Deadline for Shortening the Standard Securities Settlement Cycle to T+1

(all times shown are Eastern Time)

Canadian regulators have proposed amendments to National Instrument 24-101 *Institutional Trade Matching and Settlement* (NI 24-101) that would require 90% of institutional trades to be matched by 9:00 p.m. on trade date (T).[i] The U.S. Securities and Exchange Commission (SEC) has proposed a rule requiring 100% of institutional trade matching (i.e., allocations, confirmations, and affirmations) to be completed by midnight on T,[ii] with the U.S.'s DTCC setting a 9:00 p.m. on T operational deadline for affirmations.[iii] Canadian market participants believe that a 90% matching deadline just prior to 4 a.m. on T+1, still before the next business day settlements starts, is the best option, for several reasons, one being that the SEC's T+1 rule is not yet final.

The SEC's proposed deadline for transitioning to T+1, published in February 2022, is Q1 2024 . The U.S. and Canadian industries responded to the SEC's request for comments last year, strongly recommending six months later – Q3 2024. If the SEC chooses Q1 2024 despite leading industry group requests for Labour Day weekend 2024, the transition effort – much more difficult than previous settlement cycle reductions – becomes significantly more challenging, making the Canadian industry's call for 3:59 a.m. on T+1 matching cut-off even more important.

1. **Why has the Canadian industry recommended 90% trade matching by 3:59 a.m. on T+1 for regulatory and operational purposes instead of a 9:00 p.m. on T deadline?**

   This deadline was proposed because it maximizes the flexibility for Canadian capital markets participants across the country, and benefits counterparties operating in non-Canadian time zones. Specifically:

   a) Custodians and buy-side firms will have more time with a 3:59 a.m. T+1 deadline to affirm trades before the day's netting settlement processes start at 4:00 a.m. on T+1.
   b) Sell-side firms will be best able to reduce their collateral requirements and complete settlement.
   c) Each firm can choose an earlier matching deadline before 3:59 a.m. on T+1 (such as 9:00 p.m. on T).

   There are two other important considerations:

   d) Canada's processing systems differ from those in the U.S. and, therefore, so do solutions.
   e) Canada and the U.S. have different regulatory approaches: the proposed U.S. rules apply directly to broker-dealers, custodians, and investment managers, while Canada's NI 24-101 trade-matching deadlines currently apply directly *only* to registered firms,[iv] leaving other critical market players outside the regulatory framework.

2. **A unified or at least harmonized approach to deadline regulation is more efficient. Don't different deadlines in Canada and the U.S. mean Canadian companies dealing in the U.S. must have a different process for each country?**

   Having different deadlines doesn't mean firms need two separate processes. Canadian firms can adopt the U.S. operational 9 p.m. matching deadline for both their Canadian and U.S. business if they determine this makes sense for their organizations.

   Operational rationalization and automation are important (as recommended in the CCMA/industry's T+3 to T+2 *Post Mortem Report*).[v] To facilitate greater automation, CDS is, among other things, replacing its CDSX clearing, settlement, and corporate actions systems as part of its post-trade modernization project (PTM).[vi] With (as of the start of February 2023) a minimum of 12 ½ months and a maximum of 19 months until T+1 implementation, achieving full automation (the best solution) is not possible in light of continued unknowns. The lack of a firm SEC transition date and details, in particular, has meant firms have not been able to devote the necessary attention to T+1 while they work on other regulatory projects with clear implementation dates.

3. **Don't Canadian firms have to operate until 3:59 a.m. on T+1 if Canadian regulators set that time as a deadline for attaining 90% matching?**

   NI 24-101 doesn't prescribe a firm's hours of operations, or that it must stay open until 3:59 a.m. on T+1, if that is the Canadian deadline, as long as the firm meets the 90% affirmation threshold.

4. **Trade-matching currently requires at least some interaction with internal and external counterparties, so wouldn't these parties need to be available to resolve issues through to 3:59 a.m. on T+1, demanding more staff to affirm all trades?**

   There is no requirement for more staff between DTCC's 9:00 p.m. on T operational deadline and what we believe should be Canada's 3:59 a.m. on T+1 operational and regulatory cut-off. Indeed, some buy-side firms, have advised their custodian that they have little interest in extending their current workdays. However, a 3:59 a.m. on T+1 deadline allows firms (buy-side, custodian, or sell-side) in European markets to affirm or correct trades at the start of their business day on T+1, and for those in Asian markets to have an extra 3.5 hours towards the end of their business day on T+1 to match or address errors.

5. **Doesn't a later cut-off time for matching mean less time to fix mistakes?**

   To meet the 100%-matched-at-midnight U.S. regulatory deadline, DTCC has had to advance its system jobs schedule to 9:00 p.m. on T. In fact, a 3:59 a.m. T+1 deadline gives Canadian firms that need, or may need it, an additional seven hours (from 9:00 p.m. on T to 3:59 a.m. on T+1) to match trades or address issues.

6. **Wouldn't it be more effective if one organization – CDS – compressed the timeline to achieve affirmation by 9:00 p.m. on T, which also sets us up better for T+0?**

   First, if the CSA's proposed 9:00 p.m. on T timeline were adopted, sell-side dealers would need to know all of their buy-side allocations by about 5:00 p.m. so buy-side firms and custodians could affirm trades by 7:30 p.m. for institutional trades to be received by 8:00 p.m. at CDS. It is uncertain whether sell-side firms could meet the 5:00 p.m. deadline on T, and equally uncertain that market players, not subject to Canadian regulation, would make (or be able to make) this change. It would also require a significant processing change in how trades are reported by marketplaces to CDS.

   Second, if CDS were to have to further change systems now, project risk would increase for both the T+1 *and* PTM projects as the timelines of the two already overlap. This could mean CDS would have to change both the CDSX (current) and PTM (future state) systems. It might require dealers, custodians, and service providers to also change internal systems, and to test on both the CDSX *and* PTM systems, increasing resource demands.

   Third, rushing to meet a 9:00 p.m. on T deadline on the premise that it might help achieve T+0 is not a persuasive reason because *when* T+0 might be mandated, and *how* T+0 might be interpreted, are as yet unclear. It would be more prudent to discuss further globally automated systems, especially because North America moving to T+1 (or less), when Europe and Asian counterparts remain largely on a T+2 standard settlement basis, has generated issues that have yet to be fully resolved, and any move to T+0 could create a completely different set of issues.

[1] https://www.osc.ca/en/securities-law/instruments-rules-policies/2/24-101/csa-notice-and-request-comment-proposed-amendments-national-instrument-24-101-institutional-trade.
[1] https://www.govinfo.gov/content/pkg/FR-2022-02-24/pdf/2022-03143.pdf.
[1] https://www.dtcc.com/-/media/Files/PDFs/T2/T1-Functional-Changes.pdf.
[1] Dealers and advisers registered under securities legislation in Canada.
[1] https://ccma-acmc.ca/en/wp-content/uploads/T2-Project-Post-Mortem-Report-April-19-2018.pdf.
[1] https://www.cds.ca/about/post-trade-modernization.

CCMA Announcement when SEC Confirms Date (stiff upper lip)

1. **Planning for possibility SEC adopts end of Q1 (March 31, 2024) as deadline**
   a. Confirm Canada will move to T+1 with the U.S.
   b. SEC released rule Feb, 2022; March 31 2024 a year to finish and test preparations (FYI: see tables next page re current status) – U.S. and Canadian investment industries had recommended the 2024 three-day Labour Day week-end.
   c. The SEC has confirmed the *end* of the first quarter as the *latest* transition date. The U.S. and Canadian industry must confirm an optimal date within that quarter that presents the fewest risks, e.g., avoid, among other things, quarter-ends that experience very high trade volumes and values, large corporate actions. In earlier discussions, the best date in the first quarter was Presidents' Day (U.S.)/Family Day or equivalent (Canada) – February 19, 2024 – a year away.
   d. Europe and Asian markets generally remain with a T+2 settlement cycle.
   e. With between a year and a year and a month to go to complete this multi-party globally-affecting change, Canada will continue working closely with the U.S. on this highly complex issue to successfully move to T+1, as in the past when both countries have shortened the settlement cycle.
   f. Canada will continue to work closely with the U.S. to confirm a date and successfully implement this major complex change.
   g. Notes re CCMA, explanation of T+1, complexity (give examples, e.g., foreign exchange, recalling securities on loan, arranging credit).

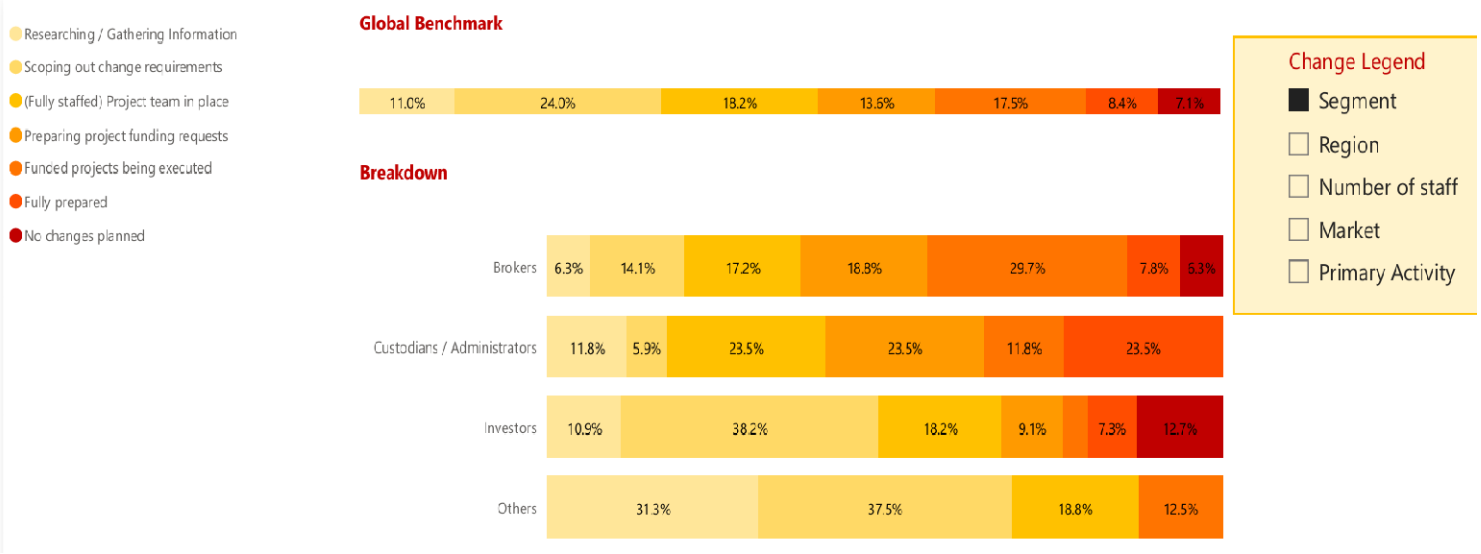
2. **Planning for possibility SEC adopts end of Q3 (September, 2024) as deadline**

   a. Confirm Canada will move to T+1 with the U.S.
   b. Pleased that SEC released rule changes and Q3 date, allowing the three-day Labour Day week-end and other decisions to proceed.
   c. The change remains highly complex (examples – Europe and Asian markets generally remain on a T+2 settlement cycle, foreign exchange, recalling securities on loan, arranging credit).
   d. Canada will continue to work closely with the U.S. to implement this major change and successfully move to T+1, as in past efforts to shorten the settlement cycle.
   e. Notes re CCMA, explanation of T+1, complexity as above

DRAFT – CONFIDENTIAL/DO NOT SHARE

Excerpts from Value Exchange Survey

How would you describe your current status on preparing for T+1 in US/Canada?



When do you plan to be able to complete these tasks for T+1 and is this a change from today?

Investors

Categories	Before 7PM ET on T0	Before 9pm ET on T0	Before midnight ET on T0	Before 11:30am on T+1	Don't know yet
Affirmations	22.7%	27.3%	13.6%	22.7%	13.6%
Allocations	56.5%	4.3%	8.7%	13.0%	17.4%
FX booking	54.5%	9.1%		22.7%	13.6%
Securities lending: recall booking	11.1%	22.2%	5.6%	16.7%	44.4%

Brokers/Custodian

Categories	Before 7PM ET on T0	Before 9pm ET on T0	Before midnight ET on T0	Before 11:30am on T+1	Don't know yet
Confirmations	9%	41%	11%	2%	36%
FX booking	26%	5%	3%		67%
Securities lending: recall booking	5%	14%	21%	12%	48%

Draft FAQs

Q. Asset List: Are single stock futures, where the underlying security is physically delivered via CDS (currently on T+2) going to be able to move to T+1?

A. The underlying securities in a single stock future settle in CDS by way of a transaction file received from the Canadian Derivatives Clearing Corporation (DTCC) CDCC. While 'physically-delivered' sounds like an actual certificate transfer, there are no physical deliveries to CDCC; in this case, physical refers to an underlying security that is not a derivative or cash-settled. For futures and options, the underlying securities (called 'physical') settle electronically in CDS. The transactions CDCC forwards to CDS as a result of exercises, assignments, and tenders are settled directly between CDS clearing members. CDS does not foresee any issues in having single stock futures settle on T+1.

Q. The T+1 Asset List says "special terms" trades are excluded (not in scope), but the currently applicable Universal Market Integrity Rule (UMIR) is being amended to from T+2 to T+1. Doesn't this imply there is a change to T+1?

A. It does seem counterintuitive, but in the case of T+2 currently, and what will be T+1 as of the day the Canadian market moves with the U.S. to T+1, the effect is to EXCLUDE standard trades from the provisions of the rule that allows counterparties to bilaterailly choose something other than the standard time, In future, 'special terms' requirements/provisions apply to securities OTHER than those moving to a T+1 standard.

Q. The T+1 Asset List says that the ETF create/redeem process is excluded (not in scope). What does that mean?

A. From the perspective of investors and trades in securities, there is no issue as these ETFs will be settled like debt and equities on a T+1 basis. The create/redeem process is between ETF management companies and designated brokers and is what occurs to 'make' the ETF units that are traded, and these firms will determine appropriate steps. The Canadian ETF Association has confirmed there is no further work being done on this issue. If there are further developments, the CCMA will share the information in meetings, the newsletter, or on LinkedIn.