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**T+1 Communications and Education Working Group (CEWG)**

**Proposed Agenda**

**Tuesday, November 21, 2023 – 11:00 a.m. ET/9:00 a.m. PT**

1. **Welcome, introductions All**
2. **Draft minutes of October 10 CEWG Meeting *(Attachment 1)* Members**
3. Review/approve
4. Review matters arising from minutes
5. **New T+1 news/information** **Members/CCMA**
   1. Member/association updates Members
   2. Canadian update Staff
   3. U.S. update Staff
   4. International news *(IIAC India presentation, Euroclear report)* Members/Staff
   5. Events/articles/other communications/education updates Staff
6. **For review, amendment, approval Members**
   1. Draft FAQ re how/when mutual fund settlement dates will be known

***(Attachment 2)***

1. **For discussion Members**
   1. November 30 Time to Talk T+1 Newsletter Topics; other?

* Updated status of top 8 CCMA T+1 priorities
* Updated asset list released
* CSA request for comment re proposed amendments to NI 81-102 (Investment Funds) re forced redemption of securities
* CIRO final amendments to Rules re industry move to T+1 settlement, CIRO guidance on ‘regular’ settlement date for foreign exchange hedge trades
* Mutual fund update/FAQ if approved

1. Draft messaging to issuers re T+1 transition time ***(Attachment 3)***
2. **Other issues as raised Members**
3. **Next meeting** (December 12 or January 9) **Members**

**Attachment 1**

**A close-up of a logo

Description automatically generated**

**Draft October 10, 2023 CEWG Minutes**

1. **Welcome, introductions**

The meeting was called to order.

1. **Draft minutes of the September 12 CEWG meeting**

The draft minutes of the September 12 CEWG meeting were accepted without change; there were no pressing outstanding action items.

1. **New T+1 news/information**
   1. **Member updates:** Pat said that a CETFA discussion document, to be discussed with the regulators, was nearly complete; it is expected to ask for a blanket exemption to help address the T+2/T+1 mismatch that may impede ETF creation.
   2. **Updates – Canada:** Keith provided an update on the work of the CCMA committees. He said the latest institutional trade processing data, however, have not evidenced confirmation rate improvements over the past four months, and this rate needs to more than double by May 27, 2024. It’s expected that numbers will improve substantially as automation and new counterpart agreement provisions take effect, and the results become more evident as testing starts in January, however, by how much will not be known until then.
   3. **Updates – U.S.:** Industry testing had recently started in the U.S.; while activity is still reasonably light, volumes are expected to increase later in the fall. SIFMA is working on the set-up of a Command Center (as done for T+2 in 2017) for the transition period. It is expected to be active during the week leading up to and following May 27/28, 2024; Keith, representing Canada, will participate in Command Center discussions and co-ordinate communications with interested Canadian parties. Although there continue to be whispers about the potential for the SEC to delay T+1 implementation, Keith said that there is nothing to suggest any truth to such a rumour; the entire industry must remain focused on being fully ready for May 27, 2024.
   4. **Updates – International:** Mexican counterparts had recently announced the intention of their marketplace to move to T+1 on May 27, 2024. While this still required regulatory approval, this was understood to be a formality. The U.K. and Europe are both studying the prospect of moving to T+1, with the U.K. expected to make a recommendation in the fall on the potential to move to T+1 in late 2025 or 2026. Europe has no set timeline for their recommendation or transition.
   5. **Event/article/other communications and education updates:** Keith provided an update on recent speaking events and mentioned upcoming ones:

* Nov. 30, CIRO/Conduct, Compliance, and Legal Advisory Section (CCLS)
* Dec. 5, ACSDA with speakers from Mexico, Canada, U.S.

1. **For discussion**

* **ValueExchange Survey:** The ValueEx results had been presented at the large SIBOS event in Toronto in September, and would be presented to OWG members later in the week. The survey findings were consistent, or not inconsistent, with the CCMA‘s second survey results released a month earlier. A final copy of ValueEx outcomes was not yet available but was expected shortly.
* **Third CCMA T+1 Technical Update:** Barb said that the next update was in draft and would be released on October 31. She asked for input from industry infrastructure, custodians, vendors, and correspondent clearers that had not yet provided an update on T+1 preparations. **Action:** David Petitville said that RBCIS would provide an update and Barb said that she would follow up with NBIN.
* **FTF News – Blog opportunity:** Keith said he had received word from FTF News that Canada was understood to be a “bitbehind … in T+1 preparations” and offering to include something on Canada’s position. Members agreed that this would be a valuable opportunity. **Action:** The CCMA will draft an article to send in late November.

1. **Other issues:** None raised.

1. **Next meeting:** While the next CEWG meeting was scheduled for Tuesday, November 14, Barb would be away at that time. Members discussed whether to postpone or cancel that meeting, and agreed to defer the meeting to November 21. **Action:** Keith to reschedule the November 14 meeting and a decision on whether to cancel the December meeting would be made on November 21

The meeting was adjourned.

|  |  |
| --- | --- |
| **Agreements** | |
|  | Members accepted the draft minutes as written. |
|  | |
| **Action Items** | |

| **#** | **Description** | **Who** | **Status** |
| --- | --- | --- | --- |
|  | Provide RBCIS entry for T+1 Technical Update | David Petitville | **Done** |
|  | Contact Yianna/National for content for T+1 Technical Update | Barb | **Done** |
|  | Draft a short article for FTF News on Canada’s readiness for T+1 for submission in late November. | Barb | In draft |
|  | | | |
| **From preceding meetings** | | | |
|  | Arrange discussion among Paniz, Matt, Christine, Pat Yianna, Alexandra, and David regarding communication of relevant fund-related information re settlement date | Barb | **Still hoping to find a date!** |
|  | Investigate lessons learned from Indian transition to T+1 | Navdeep | **Issue closed;** **IIAC arranged a webinar that discussed this; no showstopper issues identified for Canada** |
|  | Follow up with the IIAC for an IIAC member to help co-ordinate communications with the broker-dealers | Barb | **Issue closed; IIAC contact is now available so this item will be closed** |
|  | Extend media outreach once more concrete information is available | CEWG | Yianna and Alexandra |
|  | Manage podcast or blog/Qs&As re buyside liquidity issues | Merici | TBD **Is this still an issue?** |
|  | Draft article for CIFP | Barb | **Work has begun; prefer to have some basic answers on mutual funds to proceed further** |

| **Meeting Attendees** |
| --- |

|  |  |  |
| --- | --- | --- |
| Hector | Toriz | AMF |
| Michael | Giancursio | BMO |
| Natalya | Markelova | BMO |
| Olga | Svistoun | BMO |
| Siv | Angalakuduru | BNS |
| Jason | Dear | BNS |
| Alvin | Lam | BNS |
| Pat | Dunwoody | CETFA |
| Wendy | Chen | CIBC |
| Carol | Revoredo | CIBC Mellon |
| Kim | Welton | CIBC Mellon |
| Pamela | Egger | IFIC |
| Frank | Lacroce | OSC |
| Ahren | Estabrooks | OTPP |
| David | Petitville | RBC |
| Irina | Issakova | TDAM |
| Laxman |  |  |
| Keith | Evans | CCMA |
| Michelina |  |  |
| Barb | Amsden | CCMA |

**Attachment 2**

**Draft FAQ – How Will Mutual Fund Settlement Dates Be Known?**

**Because regulators aren’t *requiring* mutual funds to move to next-day (T+1) settlement as of May 27, 2024, how will advisors and clients know whether funds must be paid for two days after a purchase (on T+2 as they do now) or a day earlier (T+1), once T+1 becomes the mandatory standard settlement cycle for debt, equity and ETFs trading in secondary marketrs on that date?**

How to communicate that some T+2 funds will *not* move to T+1 (and which funds these are), while other parts of the market *will* move to T+1, is still being worked out. As well, because the move to T+1 is optional for fund managers, individual firms may take different approaches to deciding which funds will move/not move to T+1, how to communicate this, and when.

Asbackground, there are mutual funds (and other securities) that do not settle on today’s standard T+2 cycle now (for example, they may already settle on T+1 (90% T+2, 8% T+1, and 2% is T+3 or more settle on a T+3 or longer basis), however, these are proportionally few because at present the mandated standard securities settlement cycle in Canada is T+2 for *all* securities, including mutual funds, except the very small percentage that settle on a ‘special terms’ basis, i.e., on other than the standard cycle. The very large majority of funds, as well as debt and equity securities, have settled on the same cycle for decades, so clients have been able to sell an ETF, stock or bond, and buy a mutual fund – or vice versa — the same number of days after a transaction with no problems. But this is changing as of May 27, 2024. Starting on that day, dealers, advisors, and their clients will have to navigate a situation that, while occurring today, happens rarely enough as to be manageable.

**What are the implications of this one-day settlement mismatch for clients, advisors, fund managers, dealers, and their service providers?**

1. After North-American markets move to T+1 settlement in late May 2024, a client who wants to sell a mutual fund in Canada to buy an ETF, stock, or bond will have to pay for their purchase on the next business day (T+1), while proceeds of the mutual fund they are redeeming may only be received a day later (T+2).
2. A mismatch means that a client will have to hold more in lower-earning money-market funds that settle on T+1, have extra non-earning cash on hand, or borrow short term.
3. Advisors recommending a T+2-settling fund will also have to be able to manage/monitor the money coming in.
4. It is likely that a settlement cycle that differs from the standard market cycle, and therefore could lead to delays or costs for a client later wanting to redeem a fund to buy an ETF, stock or bond instead, would be considered a material fact that must be disclosed to clients.
5. The first time a client is inadvertently charged interest for a one-day overdraft that they didn’t expect, because the ETF or other non-fund security settles on T+1 and the fund redemption occurs on T+2, could contribute to the end of that business relationship unless the advisor/dealer chooses to absorb the cost — neither a desirable action.
6. A number of dealers may choose to manage the cash for the one-day mismatch for clients (and advisors) because for most the interest amount would be relatively small and even during the 2008-2009 market turmoil, international funds only suffered 2%-3% net redemptions on a weekly basis with corresponding less daily. With the possible exception of more challenging cash management for funds with a concentrated number of unitholders, the funding cost risk therefore could be seen as small for at least large firms and so one that a number of firms are prepared to accept as a cost of doing business if the cost can be offset by savings from operational efficiencies.
7. Given the existing choice of funds, many advisors will not see a need to consider funds settling on T+2 for their clients.
8. It is unclear whether fund companies will be comfortable shifting the settlement-cycle verification burden onto the advisor for him/her to check whether some mutual funds the advisor once recommended will in future settle on T+1 or stay at T+2, especially if an advisor must only enter two or three lines into a system, push a button, and the T+1 purchase or redemption is done as compared to having to undertake additional steps (possibly get an additional signature to disclose later proceeds availability at redemption, manage/monitor for cash, etc.).
9. Combined, some industry experts believe that these factors will pressure clients to ask for — and dealers and advisors to focus only on — T+1-settling funds, even if there are T+2 funds on the dealer’s shelf.

**What are the options to communicate to advisors those funds that will remain on a T+2 or longer cycle?**  While the chosen approach(es) will be market-driven, the following solutions have been being considered (to a greater or lesser extent) as options for enabling advisors and retail investors to find out if a mutual fund will continue to settle on T+2 or move to T+1 as of May 27, 2024.

| **Option** | **Pros** | **Cons** |
| --- | --- | --- |
| Individuals directly access a detailed list of funds and settlement dates on the Fundserv website | Already possible; free | Not intuitive, quick or easy for advisors or clients |
| Individual firms develop an internal solution (a number of dealers may look to find a way to give some clarity and visibility to those 3%-5% of more tech/operations-savvy advisors that have clients who are more interested in exotic, and so longer-settling, funds) | May be relatively little development | Unlikely to address client/advisor need for speed and Compliance desire for accuracy/ certainty; cost may not be justified by usage |
| Fundserv or a third party could extract a list of just the fund name, ID, and settlement date from the Fundserv database and make it available | Likely relatively straightforward, cost-effective, and achievable by May 27, 2024 | Unlikely to address client/advisor need for speed and Compliance desire for accuracy/ certainty |
| Fund managers could include the settlement date in their fund prospectuses filed with and available on SEDAR | None | Not practicable as the prospectus is rarely read |
| Fund managers could add the settlement date to the Fund Facts document sent to clients before a purchase | Self-serve or sending Fund Facts electronically is already in place | Fund Facts layout is highly regulated and to change this would take time; effort to update Fund Facts would likely be unappealing to fund managers; doesn’t address client/advisor need for speed or Compliance wish for accuracy/ certainty |
| Add a short code (say T2) to fund code number/name of funds remaining on T+2 | Easier for advisors and self-serve clients | Would require industry agreement and training; development for adding digits to existing codes not scoped; competing high-priority regulatory projects at Fundserv, firms, and service providers |
| Other? |  |  |

**When will we know which funds will move to T+1, and which won’t?**

This is not known. Fundserv expects to survey its members early in the new year, to try and get a sense of what different companies’ plans are. In the meantime, one firm has shared that 100% of its funds will move to T+1, and this may encourage others to announce their intentions. Fund managers may declare, as late as May 24, 2024, which funds are going to move to T+1 at the same time as debt, equity, derivatives, and ETFs, and some will go after that date, requiring further/ongoing communication. More information will follow as known. Any time even afer

**Attachment 3**

**Draft Notice to Issuers and Their Advisors regarding T+1**

**Date**

**Important Notice to Issuers, Securities Lawyers, and Market Participants**

**Preparing for T+1 Settlement: Impact on due bill trading, odd lot selling and purchase agreements**

This notice is being sent to all parties involved with securities issued and trading in Canadian markets to alert them to an upcoming change in the Canadian standard securities settlement cycle and related risks, so that market stakeholders can plan accordingly and transition can proceed smoothly. The number of days it takes to settle a trade in North-American secondary markets is reducing from the current two business days after a trade (T+2) to next day – T+1 – effective May 27, 2024 in Canada[[1]](#footnote-1) and Mexico, and May 28, 2024 in the U.S. (May 27 being a U.S. holiday). While primary markets are out of scope of the change, related entitlements may be affected. Because the change from T+2 to T+1 settlement is more complex than the T+3 to T+2 transition, issuers and their advisors are encouraged to:

* Avoid creating new events that settle on either the first date set for trading on a T+1 basis (May 27) or the May 28 ‘double settlement’ date when trades from two business days prior (the last of T+2 trading) as well as May 27 T+1 trading settle on the same day.
* Have staff ready to address questions that may arise during transition
* Consider appropriate internal and external communications for their stakeholders.

**Background:**

Entitlement events involve the calculation and payment to a securities holder of cash and/or securities, whether mandatory (e.g. interest, dividends, principal repayment at maturity) – when beneficial holders will receive the entitlement without having to make a decision – or voluntary, when beneficial holders must decide to accept or ignore an option (e.g., rights subscriptions, tenders). Entitlements include corporate actions that affects corporate share or debt structure or payments, such as corporate reorganizations (e.g., merger or acquisition, leveraged buy-out or tender offer), special stock transactions (e.g., split, rights offering, conversion, odd lot program), and changes in capital structure (e.g., through flotation, merger, takeover or a capital reorganization).

The move to T+1 will have the following effects on entitlements:

| **Function** | **Current Practice** | **Practice as of May 27, 2024** |
| --- | --- | --- |
| **Entitlement Events**  ifbase security trades… | * without due bills:[[2]](#footnote-2) ex-date = record date minus 1 * with due bills: ex-date is the due bill redemption date minus 1 | * ***without* due bills: ex-date = record date** * ***with* due bills: ex-date = due bill redemption date** |
| **Mandatory Events**  corporate action events of listed securities processed with… | * CDS payable date is delisting date plus 3 | * **CDS payable date is delisting date plus 2** |
| **Mandatory with Options Events**  Event set-up is date driven, not driven by the settlement period | * CNS restriction and trade conversion dates are calculated based on the agent expiry and payable dates provided by external sources | * Same *[Note: To be confirmed]* |
| **Voluntary Events**  Letter of guaranteed delivery for event expiries (cover/protect period)[[3]](#footnote-3) | * Expiry date plus 2 | * Expiry date plus 1 |

**Transition:** Changes to the TSX Company Manual related to the T+1 settlement cycle will become effective May 27, 2024.[[4]](#footnote-4) As a result of the transition from T+2 to T+1, no listed security will commence ex-trading on Monday, May 27, 2024 *[Note: TBC]*. Other dates relevant to the change in ex-date calculation of corporate action events are as follows (with U.S. equivalents added for convenience).

|  |  |  |
| --- | --- | --- |
| **Record Date** | **Ex Date (Canada)** | **Ex Date (U.S.)** |
| Friday, May 24, 2024  (last day of trading for T+2 settlement) | Wednesday, May 22, 2024 | Same as Canada |
| Monday, May 27, 2024  (first day of trading for T+1 settlement) | Monday, May 27, 2024 | Closed |
| Tuesday, May 28, 2024 | Tuesday, May 28, 2024 | Same as Canada |
| Wednesday, May 29, 2024 | Wednesday, May 29, 2024 | Same as Canada |

If you have any questions about this notice, please contact *your CDS relationship manager or listed issuer services manager.,]*

1. **Note:** Insert link to final rule changes when published (late 2023 or early 2024) [↑](#footnote-ref-1)
2. An exchange may set a later ex-date (e.g., because of challenges with stock or large cash dividends) and relevant securities will trade with a ‘due bill’ attached and have a non-standard ex-date [↑](#footnote-ref-2)
3. Investors can purchase securities even on the offer’s expiration date, with the protect feature ‘covered’ once the securities settle. [↑](#footnote-ref-3)
4. Amendments to Sections 428 (Notice to the Exchange), 429 (Ex-Dividend Trading), 429.1 (Due Bill Trading), 614 (Rights Offerings), 620 (Stock Split), and 639 (Procedures Applicable to Odd Lot Selling and Purchase Agreements) *[Note: TBC]* [↑](#footnote-ref-4)