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

**Proposed Agenda**

**Tuesday, December 12, 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. Mexico update ACSDA committed to May 27 Staff
   5. International newsMembers/Staff
   6. Events/articles/other communications/education updates Staff
6. **For review, amendment, approval Members**
   1. Draft 3 of FAQ re how/when mutual fund settlement dates will be known

***(Attachment 2)***

1. **For discussion Members**
   1. Key message for CCMA announcement re final NI 24-101 rule release

Highlight 3:59 and transitional start collecting, collect/tract on own clienst

Csa will look at monthly basis off if miss 2 quarters so nothing until 2025

Star end of July

* 1. CCMA *T+1 Technical Update* topics (StateStreet?, Northern Trust?, Kyndryl? IFDS?; CDS testing; status of marketplaces going to hourly batches; mutual fund FAQ and (if available) mutual fund company intentions; ValueEx Survey; TMX securities lending in testing?; asset list; other? Rule 3:59 and transition
  2. Updating Communications Plan for 2024 – consistent messaging to clients smooth and informed migration informed engaged prepared

phased approach; focus on testing and simulation – reach .

1. **Other issues as raised Members**
2. **Next meeting** (January 9) **Members**

**Attachment 1**

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**Draft November 21, 2023 CEWG Minutes**

1. **Welcome, introductions**

The meeting was called to order and members were encouraged to put their and their organization’s names into Zoom.

1. **Draft minutes of the October 10, 2023 CEWG meeting**

The draft minutes of the October 10 CEWG meeting were accepted. Barb reviewed outstanding action items and a number were closed.

1. **New T+1 news/information**
   1. **Member updates**: Pat provided an update on the status of addressing ETF unit creation in the primary market; ETFTF members appeared close to an agreement on how to address the issue with the regulators. Matt mentioned an upcoming (December 1) FMFD meeting at which he would be raising a number of mutual fund issues raised and probing for T+1-related concerns that his members may have. Kim said that CIBCMellon’s client event, being held the following day, was planned for 20 or so expected guests. Interest was considerable, and so 70 or so were now registered, with NI 81-102 *Investment Funds* being of considerable interest.
   2. **Updates – Canada:** Keithprovided updates on expectations regarding fail rates after May 27, 2024 (likely up for a period, but not desirable) and CDS’s recall portal (at a flat $300 monthly fee, it’s affordable even for small participants but take-up is slow). Jason noted that smaller pension funds relied on external management; in answer to a request, he agreed to follow up with CAAT’s custodian. An outstanding action item related to buyside liquidity needs and whether this was still considered an issue; Barb agreed to follow up with Ahren. Keith also mentioned that CDS’s testing was ready to start in January.
   3. **Updates – U.S.:** Keith said that testing cycles in the U.S. were reportedly continuing smoothly. He reiterated that a rumour that the May implementation date would be delayed was still circulating, but any firm deciding to slow development and testing efforts should be aware of the consequences of not being ready.Barb mentioned that there was no formal industry go/no-go date as the SEC, but that the CCMA’s third survey – readiness – would provide an indication.
   4. **Updates – International:** Keith had attended an IIAC-organized session on India’s successful move to T+1, completed earlier in the year. On a positive note, it did not appear that there were any challenges that Indian counterparts faced about which Canadian participants weren’t already aware of and preparing for.
   5. **Event/article/other communications and education updates:**

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

1. **For review, amendment, approval**

Barb asked members to provide comments on the draft FAQ re how/when mutual fund settlement dates will be known. She noted that National Bank Investments had announced that all its funds (excluding those managed for third parties) were moving to T+1 and ideally this would encourage a number of other fund companies to announce.

1. **For discussion**
2. Members discussed **newsletter topics** for the November 30 *Time to Talk T+1* newsletter. There was agreement that the mutual fund FAQ would not be included in this issue.
3. Member discussed the **draft messaging to issuers** aimed at trying to avoid, if possible, corporate actions (especially complex ones) around T+1 transition time. Halyna asked when notification of issuers was expected as her firm was discussing coordinating communications, and she suggested optimal timing . Members agreed that despite T+1’s additional complexity, formal contact with issuers by TMX and others should probably have maximum affect at about six weeks or so before May 27 so that avoiding the critical period remains front of mind. Barb agreed to provide the draft to CDS/TMX staff with timing comments for their use.
4. **Other issues:** None raised.
5. **Next meeting:** The next meeting was scheduled for December 12th and there was a brief discussion of whether to proceed with the next meeting (three weeks away) or defer it until the first January meeting. It was left that if nothing new emerged and comments on outstanding items could be done by correspondence, then the December 12 meeting might be cancelled – decision deferred.

The meeting was adjourned.

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

| **#** | **Description** | **Who** | **Status** |
| --- | --- | --- | --- |
|  | Contact Ahren as to whether buyside liquidity issues, raised early on, remained of concern within the buyside community | Barb |  |
|  | Follow up with CAAT’s custodian regarding transition issues, including any concerns around liquidity around transition time | Jason | **Done** |
|  | Provide comments to Barb on the draft issuer and mutual fund draft documents | Members | **Received** |
|  | Provide final draft of issuer ‘heads-up about May 27’ bulletin to TMX for use with issuers, their advisors, other marketplaces and transfer agents | Barb | **Done** |
|  | | | |
| **From preceding meetings** | | | |
|  | Draft a short article for FTF News on Canada’s readiness for T+1 for submission in late November. | Barb | **Done** |
|  | 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! |
|  | Extend media outreach once more concrete information is available | CEWG | Yianna and Alexandra |
|  | Draft article for CIFP | Barb | **Await answers on mutual funds before drafting** |

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

|  |  |  |
| --- | --- | --- |
| Hector | Toriz | AMF |
| Michael | Giancursio | BMO |
| Olga | Svistoun | BMO |
| Iris | Trotman | BMO |
| Jason | Dear | BNS |
| Mauro | Lagana | CBA |
| Pat | Dunwoody | CETFA |
| Halyna | Fenkanyn-Hawryshko | CIBC |
| Kim | Welton | CIBC Mellon |
| Guylaine | Paquet | Desjardins |
| Matthew | Latimer | FMFD |
| Christine | Harminc | IFIC |
| Frank | Lacroce | OSC |
| Jason | Lau | PIAC/CAAT |
| Judith | Marcelo | Scotia |
| Irina | Issakova | TDAM |
| LT |  |  |
| Keith | Evans | CCMA |
| Barb | Amsden | CCMA |

**Attachment 2**

**Draft 3 FAQ – How Will Mutual Fund Settlement Dates Be Known?**

**Because regulators aren’t mandating 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 standard settlement cycle for debt, equity, and exchange-traded funds (ETFs) in secondary markets on that date?**

How to communicate to advisors and retail investors/clients that some T+2 funds will *not* move to T+1, while other segments 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.

**Background**:

There are mutual funds (and other securities) that do not settle on today’s standard T+2 cycle now (while currently 90% of products processed through Fundserv settle on T+2, 8% settle on T+1 and 2% 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 without problems. 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. Depending on the number of mutual funds that transition to T+1, this may become unmanageable.

**Expect if FS didn’t let sell T+1 if buy T+1**

**Para 2 8% curr settle on T+1 [debt mkts]; big issue is how they can find settlement date**

**Should banks say to fund managers we’re focussing on T+1 – has been discuss at some firms**

**IFIC’s role – don’t set standards; dealers – training advisors to be aware and consider settlement what’s cash and available; FS not anything; regulators standoffish and not taking a stronger role, communicate to fund and inv assn about what they could expect**

**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 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 the day after (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, 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 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.
6. A number of dealers may choose to manage the cash for the one-day settlement mismatch for clients (and advisors) because the cost could be relatively small. Even during the 2008-2009 market turmoil, international funds only experienced 2%-3% net redemptions on a weekly basis and correspondingly less daily. With the possible exception of funds with a concentrated number of unit holders, presenting a more challenging cash management environment, the funding cost risk therefore could be seen as smaller for at least larger firms. A number of larger firms are prepared to accept these charges as a cost of doing business – if the cost can be offset by savings from operational efficiencies.
7. Given the existing choice of funds, over time many advisors will not see a need to consider putting new client money into funds settling on T+2.
8. It is unclear whether fund companies will shift the settlement-cycle verification burden onto the advisor. If so, the advisor will need to check whether some mutual funds previously recommended will in future settle on T+1 or stay at T+2. Fund companies are likely to lean in this direction, especially if an advisor must needs only to enter two or three lines into a system, push a button, and the T+1 transaction is done as compared to undertaking additional steps (possibly obtaining an additional signature to disclose later proceeds availability at redemption, manage/monitor for cash, etc.).
9. Some industry experts these factors combined may pressure clients to ask for — and dealers and advisors to focus predominantly on — T+1-settling funds, whatever other funds are 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 because there may still be reasons for clients to ask to purchase a fund that settles on T+2 or later?**  While the outcome will be market-driven, the following solutions have been, or are 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.

| **Possible Option** | **Possible Pros** | **Possible Cons** |
| --- | --- | --- |
| Individuals and advisors 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 as distributors already can use the Fund List file FD/FC to update their security master with updated settlement cycles for applicable funds | 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 * Easy for both client and advisor to check settlement pre-trade * Visual reminder to advisor when sending out to clients | 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 |
| Fundserv could be asked to add a short code (say T2) to fund code numbers/names 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 |
| Sellside firms may decide to generally limit dealing to T+1 funds | As a firm-by-firm decision, no/minimal systems changes needed | Question whether this is consistent with client needs  How to manage clients who currently hold T+2 funds (grandfather/run down book) |
| Other? |  |  |

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

This is not known. Fundserv has said that surveying manufacturers to try and get a sense of what different fund companies’ plans are regarding the intention to move to T+1 on May 27, 2024 at the same time as debt, equities, and ETFs in secondary markets: “may not provide insight as the fund managers are still reviewing internally whether or not they will move to T+1.” Fundserv added that they “will only know officially once FD/MD files start to come in with the Settlement Period change, which will most likely be in the week leading up to the T+2 to T+1 move.” In the meantime, one firm has shared that 100% of its funds will move to T+1 on May 27, and this may encourage others to make a decision and announce their intentions. Fund managers, however, may declare a move to a T+1 settlement cycle at any time, and indeed over a period of time. There will be a need for further and ongoing communication on this issue. More information will follow as known.