Advisors: Have you heard about T+1? Can you answer client questions?

By now, fund and securities dealers should have heard from fund manufacturers, their industry associations, or regulators about T+1, at least in general terms. Advisors who sell funds and other securities should have a basic T+1 understanding provided by their dealers and have communicated or decided how to work with clients regarding the implications of T+1. Investors, including do-it-yourself retail clients, should have learned about T+1 at a high level from their dealer, advisor, or the platform on which they buy and sell or redeem through web messages, account statements, e-mails, calls, or meetings. So, what do ***you*** know about T+1 and which funds will or won't move to T+1?

What is T+1?
Today, the standard time for people to pay for stocks, bonds, exchange-traded funds (ETFs), and other investment funds is two business days after the date an order is placed (called T+2).[1] A securities rule change in Canada, made because of a similar change initiated in the U.S. with which markets Canadian ones are closely linked, will take effect for transactions **on and after May 27, 2024.** It will reduce the standard number of business days to "settle up" for most security purchases and sales in Canada from two business days to one – T+1. Investors will have to pay for (and will receive) the investments they buy, or deliver the securities they sell or redeem (and will receive payment), on a next-day basis instead of on T+2, with some exceptions.

What does "some exceptions" mean?
In the past, whenever the settlement period shortened, virtually 100% of all investment types adopted the compressed payment cycle. However, halving the settlement cycle from two days to one leaves less time to process orders and little time to correct errors. Fund managers with a lot of European, U.K., and other marketplace investments will have to address a "date mismatch" because capital markets in these locations are remaining on a T+2 or longer settlement cycle. This means fund managers may have to delay purchases by a day, or borrow or hold more liquid securities so they can deal with the case of having to sell T+2-settling (say, European) securities to buy T+1-settling North-American ones. Because of this timing challenge, Canadian securities regulators encouraged fund managers to move funds to next-day (T+1) settlement but did not require it. There is no set date by which fund managers, dealers, or advisors must notify clients of whether there will or will not be a settlement date change for mutual, segregated, or other fund holdings.

How will someone know if funds a client currently holds, or that an advisor is recommending, will settle in one business day or two days?
For the first time in decades there won't be a single default standard settlement cycle for securities traded on marketplaces (e.g., the TSX) and non-ETF funds, so investors will expect dealers, advisors, financial planners, or the investment platform they use to alert them to the T+1 change that may affect them. Despite efforts, there is currently no publicly available list of the funds moving or not moving to T+1.

- Fundserv dealer participants may have already received information from fund managers, or may access the results of a Fundserv survey of the fund companies that will move all, some, or none of their offerings to T+1. So far, over three-quarters of funds settling on today's T+2 standard are expected to move to T+1, however, many fund managers have not released information publicly.
- From **Monday, May 20 through Friday, May 24**, dealers should be able to access and ideally will share information with their advisors on which funds will move to T+1.
- As of **midnight, Saturday, May 25**, Fundserv will update its Fund Profiles: this won't identify the funds moving to T+1, just which funds bought or redeemed on Monday, May 27 will settle on a next-day basis, that is on Tuesday, May 28 (see [How to find a fund's settlement date]).

[1] ***Note:*** Some securities settle today on a same-day (e.g., T-bills) or one-day (e.g., money market funds) basis or, in rarer cases, on a longer cycle (three days or more). There will be no change to this practice.

What impact does this have on investment dealer clients?
In most cases there will be little impact. Most investment dealer participants, whether holding exchange-traded securities (debt, equities, ETFs) or funds, will have to deliver (or have their dealer deliver) securities they sell or redeem, or payment for securities they buy, a day earlier than now, that is, on the day after the transaction.

- If clients have extra cash or other holdings to sell for next-day settlement, or if they can borrow against a margin account, they likely will notice no difference.
- If they *don't* have enough cash, credit, or securities that can be sold to settle on the same or next day, or if they have securities certificates in physical form, they will have to either:
  - Deliver the payment or securities to their dealer early enough to be entered into the dealer's systems to be processed by the 4:00 p.m. ET cutoff on the business day after the trade/transaction OR
  - Delay a purchase until the cash or securities are in their account ready for exchange.

What impact does this have on mutual fund or segregated fund dealer clients?
If clients want to use the proceeds from redeeming a fund that takes **two days** to settle to buy a fund or other security that settles in **one day**, their advisor will have to make a switch for them or they will have to:

- Have cash or T+1-settling funds in their account or deposit cash into their account by the relevant deadline OR
- Sell the funds that settle on a two-day (T+2) cycle immediately and delay purchase of the one-day cycle funds by one business day so proceeds of the redemption will be received in time to pay for the new fund being bought – during this one-day delay, the price of the fund a client wants to purchase may go up or down.

Advisors should talk with their dealer firm about options, which could include both the redemption today and the purchase tomorrow being set up at the same time *[Note: This refers to in-cash transfers: check if your dealer offers these]*.

A final word
In the past when the settlement cycle changed, the new cycle would be in place for multiple years before changing again. With no formal T+1 securities rule change for funds, it will be dealers, advisors, and clients who must keep their eyes open for two further possibilities: a manufacturer that has decided to leave a fund settling on a T+2 basis on May 27, 2024 may later decide to change the fund's settlement cycle to the next business day or a fund manager that shortened a fund's settlement cycle to T+1 may decide to move it back again to a two-day cycle. While it's more likely that T+2 funds will later move to T+1 than from T+1 back to T+2, in either case fund managers should make the change known broadly and publicly to dealers, advisors, and online platforms.

And a "final" final word
Advisors with clients who have a mix of T+1 and T+2 holdings in their accounts should check and quickly address if the change to T+1 leads to a few unexpected negative impacts on some clients, for example, borrowing costs or a one-day delay in the ability to invest.

For more information, please contact your dealer, advisor, or industry association.