FAQs 7

(Added April 27, 2017) Will investment funds be moving to T+2 with the debt and equities currently settling on a T+3 basis?

Yes. Service providers representing over half the active T+3 funds on the Fundserv network have confirmed they are not aware of any funds not making the move to T+2, other than some funds not domiciled in Canada (or U.S.) or some of the alternative funds not currently settling on a T+3 basis that are out of scope. Results of Fundserv's February 2017 survey of all members corroborated the findings that the overwhelming number of funds processed through Fundserv will move to T+2. Industry participants may contact managers of the specific funds they hold long-term for information; alternatively, each manufacturer will have to update their fund profiles for the funds that will be transitioning from a T+3 to a T+2 settlement period by way of Fund Setup (FD) or Product Update (MD) files on or prior to August 1, 2017. For general details, Fundserv members may e-mail T2Feedback@Fundserv.com. The most recent and important development is the Canadian Securities Administrators release on April 27 2017 of a Notice and Request for Comment*: Adoption of a T+2 Settlement Cycle for Conventional Mutual Funds* (NI 81-102) – which states that with the Proposed Amendments, the CSA intends "to codify the expectation that conventional mutual funds will settle on T+2 to remove any possibility of confusion."

(Added April 27, 2017) When are Canadian regulatory changes expected to be published?

CSA rule changes have just been published and we expect final T+2-related rule amendments further to IIROC Rules Notice 16-0177 to be released in the very near future.

(Added April 27, 2017) Is the CCMA expecting any amendments that will impact the industry's T+2 builds and testing to date?

No. We are reviewing the CSA documents released April 27, 2017 in more detail but are not anticipating negative impacts from the CSA's and the expected IIROC rule amendments.

(Added April 27, 2017) What transitional relief has the industry sought from the CSA and IIROC? Why is relief needed?

With implementation of T+2 scheduled for mid-third-quarter 2017, certain industry parties could be affected by short-term transitional issues that would result in additional work for clients and regulated entities, as well as unnecessary cost for registrants. The CCMA's letter responding to the CSA's request for comments asked that firms be permitted to implement trade-matching exception reporting for effect the first full quarter that all trades must be matched by noon on T+1, that is, the fourth quarter of 2017, with the third quarter being reported as if the current rule applied through September 30, not September 5. The CCMA's letter to IIROC asked that those IIROC dealers, which already are permitted to suppress institutional trade confirmations due to these firms' high matching rates, be permitted to continue to suppress confirms for the third and fourth calendar quarters of 2017 even should their trades matched drop temporarily below the 90% threshold due to transition.

(Added April 27, 2017) Will the industry be granted transitional relief?

The CSA has granted relief with respect to National Instrument 24-101 and the CCMA is reviewing the specific details in the final rule released on April 27, 2017. The CSA chairs must review and sign off on CSA Committee recommendations for IIROC rule changes and relief. Final information is expected shortly.

(Added April 27, 2017) Other than getting the final IIROC rule and ideally notice of transition relief, and testing readiness, are there any other outstanding issues before T+2 implementation?

Remaining issues are few and not expected to be roadblocks to implementation: they can be found on the Issues Lists of the CCMA's Operations Working Group and Legal and Regulatory Working Group. See also 'How will the double settlement date of September 7 impact corporate actions?' below.

(Added April 27, 2017) How will the double settlement date of September 7 impact corporate actions?

The ex-date of corporate actions will change to one day before the record date instead of the current two days. Investors must still purchase securities before the ex-date in order to be entitled to the corporate action – whether a dividend or income payment or compensation in securities. While exchanges have identified the required rule amendments, an additional transition workaround is required to avoid a September 5 ex-date. The transition workaround will reduce the potential for an influx of settlement claims having to be completed during the transition. A mutually satisfactory solution is being discussed by DTCC, CDS, and the Canadian and U.S. exchanges and will be communicated to the industry at large. It is expected that the solution will not require systems changes.

(Added April 27, 2017) Is there anything to learn from infrastructure and other industry participants that have already started testing?

The key finding is that participants should make sure that they are set up and connectivity-tested before starting the T+2 testing. As well, DTC/NSCC, while receiving a tremendous number of inquiries that are T+2-related, identified that a significant number of enquiries were not specific to T+2, but rather to people trying to understand basic clearing and settlement concepts or regular DTC/NSCC processing details unchanged for T+2. In order to ensure that the time spent by DTC/NSCC support teams relates to "real" T+2 testing issues, DTC/NSCC asked participant testers to work closely with their back-office SMEs to determine if questions are ones that can be answered internally before engaging the DTC/NSCC T+2 teams. Other than these issues, hurdles to date have reportedly been minor and solved.

(Added April 27, 2017) What is the best form and timing of customer T+2 communications for institutional clients? Retail ones?

The content, delivery channel and timing for effective T+2 communications with clients will depend on each firm's business model and customer profile. Firms should recognize that their clients have less time than ever to keep up with what they need to know. One institutional firm has decided to contact a representative of each firm directly since written client notification with quarterly report packages did not lead to preparations for behavioural changes to manage cash for payment a day earlier. A firm with retail clients likely also will determine that a broad approach is needed and use online account prompts/messages, text on statements (both with ways to obtain more information online and through advisors or via a call centre), in-branch (if applicable), signs/flyers and training material prepared for advisors (who may best know which clients are likely to be affected), the call centre and website. To the extent that clients only get quarterly packages/statements, firms will have to identify alternative means of reaching clients.

(Added April 27, 2017) Are there examples of retail communications?

The UST2 website provides an example of a one-pager on how to explain the impact of T+2 on investors at http://www.ust2.com/news/explaining-t2/ and early CCMA FAQs provide additional information that may be useful to communications To the extent that firms want to further simplify and briefly describe clearing and settlement, the following wording may be used as the basis for communications to Canadian investors:

> **IMPORTANT CHANGES WHEN YOU BUY OR SELL SECURITIES**
> On and after September 5, 2017, when you buy stocks, bonds, or mutual funds, you will have to pay for the securities a day earlier than now. Similarly, if you sell these securities, you will receive payment a day sooner.
>
> At present, the actual exchange of most securities for cash takes place three business days after you trade due to the many steps in the process. Canada and the U.S. will shorten this period from the current three days after trade date to two days, just as European and other countries already have done. This will reduce risks and improve efficiency – good news for everyone.
>
> If you have money, or securities you want to sell, in your account on the date you buy securities, a two-day timetable to pay for the securities will not be a problem. But if you still deliver a cheque for payment, or must bring in a securities certificate to sell to pay for the purchase, you will likely need to make new arrangements. If you have questions about how you may be affected, talk to your advisor, call 1-800-xxx-xxxx or visit <www.<yourwebsite'sname>.com/link>.