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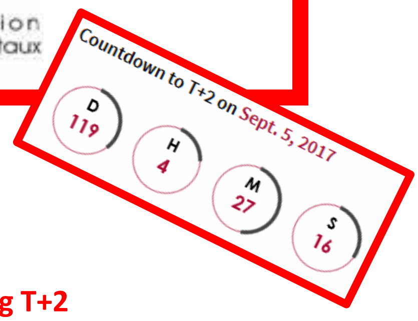

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T+2: What's New – SPECIAL EDITION

Highlights of Canadian Securities Administrators (CSA) Notice Regarding T+2

On April 27, 2017, the Canadian Securities Administrators (CSA), representing the 13 provincial and territorial securities regulatory authorities, released much-awaited information advancing the move to T+2, including linked documents:

1. Final rule amendments to National Instrument 24-101 *Institutional Trade Matching and Settlement* and its companion policy
2. A consultation document with interim guidance in the form of a *Notice and Request for Comment: Adoption of a T+2 Settlement Cycle for Conventional Mutual Funds*, along with proposed amendments to National Instrument 81-102 *Investment Funds* (NI 81-102) and National Instrument 81-104 *Commodity Pools* (NI 81-104).

The NI 24-101 rule changes will facilitate the move to T+2. While NI 24-101 neither mandates nor prevents a T+2 settlement cycle, the CSA made several amendments – some expected, some hoped for, and one or two not expected (but not likely to present a challenge) – to the rule to make the change easier.

Likewise, neither NI 81-102 nor NI 81-104 prevent a T+2 settlement cycle. However, in the interest of clarity and to provide a conclusive shift to a T+2 settlement cycle, the CSA has proposed changes to these National Instruments as well.

Here are highlights of the two documents.

Final NI 24-101 rule amendments

The final rules retain the current 'noon on T+1' institutional trade matching deadline and the exception reporting threshold of 90%. The amendments will:

- Eliminate the noon on T+2 matching deadline for trades initiated by parties whose investment decisions or settlement instructions originate outside North America – all trades must be matched by noon on T+1, or reported if the matching threshold at that time does not equal or exceed 90%.
- Require exchange-traded funds (ETFs) currently settling on T+3 to move to T+2, and to be included in T+2 exception Form 24-101 reports (in the equity category) if the 90% threshold is not achieved.

Note: *There will be no change in CDS industry statistics as they already include North- and non-North-American trades, as well as ETFs, matched at noon on T+1.*

- Confirm the September 5, 2017 implementation date, with the practical provision of a possible later implementation date being announced by way of a notice only (rather than the more intensive rule-making process) should, for example, the U.S. extend the T+2 implementation date.
- Provide transitional exception reporting relief for firms so that filing under the old rules can continue for the full calendar quarter ending September 30, 2017, i.e., the matching percentage can include non-North-American trades matched until noon on T+2, or any later quarter if the implementation date is postponed.

The updated Form 24-101F1 will only be available on the CSA's NI 24-101 online portal 45 days after the end of the calendar quarter in which the T+2 transition take place and the old forms are permitted until then.

The remaining NI 24-101 amendments include an updated definition of "clearing agency" and changes for clarity and consistency unrelated to T+2 (e.g., changing "shall" to "must", adding Eastern Time to time references, changing upper to lower case). Proposed matching service utility (MSU) rule changes – to make MSU systems and business continuity requirements consistent with those already applying to clearing agencies, marketplaces, information processors, and trade repositories – were not approved.

The notice accompanying the final rules referenced industry requests for CSA guidance regarding the adoption of a T+2 settlement cycle by conventional mutual funds, addressed in a separate accompanying document, summarized below.

CSA staff expect to update CSA Staff Notice 24-305, Frequently Asked Questions About National Instrument 24-101 Institutional Trade Matching and Settlement and Related Companion Policy, later in 2017.

NI 81-102 – Request for Comment, with Guidance, on "Conventional" Mutual Funds

The CSA's Notice and Request for Comment with respect to T+2 as it relates to conventional mutual funds has two components:

1. **Consultation:** Comments are due by July 26, 2017 on a proposal to formally shorten the standard settlement cycle for conventional mutual funds issued under NI 81-102 from three to two days after the date of purchase or redemption order (from T+3 to T+2). This will make the treatment of mutual funds consistent with the two-day settlement cycle for equity and long-term debt trades (as facilitated by the finalized, amended NI 24-101 *Institutional Trade Matching and Settlement).*
   - References to T+3 in NI 81-102, sections 9.4 and 10.4, will be replaced with T+2. Also, section 9.4 will be amended to permit, when payment for fund units has not been received, their redemption on 'T+3' instead of 'T+4' day after the pricing date. The notice also says that changes to section 10.4 of NI 81-102 will be mirrored in amendments to section 6.3 of NI 81-104 *Commodity Pools*.
   - Assuming the result of the comment period provides no surprises, amendments will be finalized in late summer of 2017, and proclaimed into force as soon after as possible, but perhaps not before September 5, 2017.
2. **Guidance**: To avoid a settlement cycle mismatch between (i) stocks, long-term debt and ETFs moving to a shorter settlement cycle in concert with the U.S. and (ii) the date that the proposed new conventional mutual fund rule comes into force, the CSA makes it clear that conventional mutual fund dealers/distributors should adopt a T+2 settlement cycle on September 5, 2017 (or any later date if a delay is instituted by the U.S.).

The CCMA will be preparing a response to the CSA request for comments and would appreciate member input; a draft will be presented for the T+2 Steering Committee to review and approve.

CCMA members are also encouraged to submit their own responses.

Coming soon... FINISH LINE