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Delivered By Email: comments@osc.gov.on.ca, consultation-en-cours@lautorite.qc.ca

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumers Services Commission, New Brunswick
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Northwest Territories
Registrar of Securities, Yukon Territory
Superintendent of Securities, Nunavut

The Secretary
Ontario Securities Commission
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19th Floor, Box 55
Toronto, Ontario M5H 3S8

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, square Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal, Québec H4Z 1G3

Dear Sirs and Mesdames:

RE: T+2 Settlement Cycle – Implications for NI 81-102 Investment Funds

We are writing on behalf of our Members to request clarity from the Canadian Securities Administrators (CSA) on implementation of the timing of settlement of mutual fund purchase and redemption transactions for those funds moving to a T+2 settlement cycle, given the permissive language in NI 81-102. We have discussed this issue with the Canadian Capital Markets Association, and have reviewed their letter to the CSA dated February 3, 2017.

The first concern relates to subsections 9.4 (1) and (2) of NI 81-102 which require a dealer/distributor to pay the "issue price of securities on or before the third business day after the pricing date". Funds settling their portfolio transactions on a T+2 settlement cycle will need to maintain higher levels of cash than may be optimal to meet the investment objectives of the fund in order to purchase portfolio securities, if dealers are not obligated to remit purchase proceeds on the same settlement cycle.

The second concern relates to situations where payment of the purchase price is not made on or before the third business day after the pricing date, or payment has been made by tender which has been dishonoured. In this event, subsection 9.4 (4) requires the mutual fund to redeem the securities to which the purchase order pertains, as if the fund had received an order for the redemption of the securities on the fourth business day after the pricing date." As this language seems to be mandatory, managers of investment funds require clarity as to whether moving to a T+2 settlement cycle permits them to then redeem securities as if they had received an order for the redemption of the securities on the third business day after the pricing date.

In a footnote to CSA Consultation Paper 24-402 - Policy Considerations for Enhancing Settlement Discipline in a T+2 Settlement Cycle Environment, the CSA acknowledged the flexibility in the language of subsection 9.4 (1) and (2), "These requirements do not prevent a mutual fund from paying the issue price or the redemption proceeds of securities on a shorter period than a T+3 timeframe (e.g. T+2)." However there was no reference to the text of the redemption requirement in subsection 9.4 (4).

Notwithstanding the above-noted provisions of NI 81-102, the industry seeks clarity from the CSA as to whether investment funds that move to a T+2 settlement cycle can expect that:

1. principal distributors and participating dealers of such funds are required to pay the issue price of securities on or before the second business day after the pricing date; and
2. if payment of the purchase price is not made on or before the second business day after the pricing date, or payment has been made by tender which has been dishonoured, the mutual fund is required to redeem the securities to which the purchase order pertains, as if the fund had received an order for the redemption of the securities on the third business day after the pricing date.

Investment funds that may not be able to move to a T+2 settlement cycle will benefit from the continued flexibility of the language in section 9 of NI 81-102.

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We would be pleased to meet with you to discuss our comments or answer any questions. Please feel free to contact me by email at rhensel@ific.ca or by phone at 416-309-2314.

Yours sincerely,

THE INVESTMENT FUNDS INSTITUTE OF CANADA

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