



Meeting link: <https://us02web.zoom.us/j/87648777622?pwd=VEtxRytEVHBrUjdDNFBtaTd0T2NKZz09>

1. **Approval of Minutes from the meeting held on Dec. 15, 2022**
2. **Matters arising from the minutes of the meeting held on Dec. 15, 2022**
3. **LRWG feedback on IIROC proposed Rule amendments**
4. **CCMA Comment Letter - Proposed Amendments to NI 24-101 (ITMS) Proposed Changes to CP 24-101 ITMS**
5. **Issue Log LRWG29-Securities Lending**
6. **Other Business**
7. **Next Meeting** February 16, 2023 at 11:00 AM ET

Jamie Anderson chaired the meeting and welcomed the attendees. Attendees were requested to indicate their name and firm; those telephoning in to the Zoom meeting were requested to email Jamie or Keith to confirm their attendance.

1. Approval of the Nov. 17, 2022 meeting minutes

The minutes were approved.

2. Matters arising from the Nov. 17, 2022 meeting minutes

Tasneem Novak (DTCC) advised that she has made inquiries and will follow-up on whether:

- the U.S. Steering Committee has a legal and regulatory log for T+1 (similar to that done for T+2 by a U.S. law firm), and
- whether DTCC has undertaken a review of the Asset List to confirm what products are moving to T+1.

3. Failure to Settle Fee (Government of Canada bond and T-Bills)

Jamie advised that a fee for failure to settle Government of Canada bonds and T-Bills has been proposed by the Canadian Fixed Income Forum. A transition period has been proposed for the fee with the expectation that it would go into effect after the implementation of T+1. Keith noted that this is likely the first step - a fee applying to corporate bonds and equities may follow.

4. Foreign Exchange (including spot transactions) – preliminary discussion

Jamie noted that there are various LRWG issue logs that pertain to foreign exchange settlement. Currently, spot transactions generally settle on a T+2 basis¹. Some currency pairs already settle on a T+1 basis (e.g. USD/CAD). Additional analysis will be required to determine the impact on current rules and guidance.

5. Securities Lending agreements – preliminary discussion

Jamie reported that at the Nov. 10th Operations Working Group (“OWG”) meeting, the issue log for securities lending was discussed. At that meeting, it was noted that security lending agreements may need to be updated for T+1.

Lawrence Horowitz (Questrade) noted that for the T+2 project, SIFMA and the International Securities Lending Association developed model agreement language so that Master Securities Loan Agreements² are agnostic as to settlement period. The global MSA of the International Security Lending Association is also agnostic as to settlement period. It was agreed that CCMA members should review their securities lending agreements to see if any changes for T+1 are required.

¹ See s. 3.1(1) of Proposed National Instrument 93-101 *Derivatives: Business Conduct*. <https://www.osc.ca/en/securities-law/instruments-rules-policies/9/93-101/csa-notice-and-third-request-comment-proposed-national-instrument-93-101-derivatives-business>.

² https://www.sifma.org/wp-content/uploads/2017/06/MSLA_Master-Securities-Loan-Agreement-2017-Version.pdf. The 2017, 2000, and 1993 MSLA versions were amended in light of the move to T+2 settlement. See, e.g., s. 6.1(a) of the 2017 version.

6. Other Business

Jamie advised that the CSA Notice and Request for Comment – Proposed Amendments to National Instrument 24-101 *Institutional Trade Matching and Settlement* (“NI 24-101”) and Proposed Changes to Companion Policy 24-101 *Institutional Trade Matching and Settlement* had been issued in the morning.³ The comment period ends on March 17, 2023. Michael Tang (OSC) advised that the CSA Staff Notice 81-335 – Investment Fund Settlement Cycles was also being released on December 15, 2022.

On initial review, it was noted that the proposed changes to NI 24-101 indicate a deadline of 9 p.m. on trade date for institutional trade matching (aligning with the deadline proposed by DTCC in order to meet the midnight matching deadline as proposed by the SEC). This differs to the time as recommended by the Canadian industry through the CCMA (i.e. 3:59 a.m. on T+1). As the CSA process involved the provincial/territorial jurisdictions and in some cases many have required government approval to issue the Request for Comment, there may have been a timing disconnect between the CCMA recommendation and the finalization of the Request for Comment. The CCMA will be submitting a comment letter.

The industry has agreed that as a best practice, institutional trades are to be submitted (including allocations) to the clearing agency by 8 p.m. on trade date. The buy-side and custodians will then have from 8 p.m. on trade date to 3:59 a.m. on T+1 to ensure the trades have been entered correctly. The OWG is setting up a temporary buy-side task force to bring the various parties together to examine how to make the confirmation/affirmation process as efficient as possible.

7. Next Meeting

January 19, 2023 at 11:00 AM ET

³ <https://www.osc.ca/en/securities-law/instruments-rules-policies/2/24-101/csa-notice-and-request-comment-proposed-amendments-national-instrument-24-101-institutional-trade>.

Attendance	Organization	Member
1.	ASC	Jan Bagh
2.	ASC	Chad Conrad
3.	ASC	Harvey Steblyk
4.	Casgrain	Alejandro Hozer
5.	Casgrain	Lysianne Guillemette
6.	Casgrain	Jonathan Lee
7.	Casgrain	Pierre Mital
8.	Casgrain	Andre Zanga
9.	CCMA	Barb Amsden
10.	CCMA	Jamie Anderson - CHAIR
11.	CCMA	Keith Evans
12.	CIBC	Maryam Bashir
13.	CIBC	Carol Elmalem
14.	CIBC	Lavanya Gandhimohan
15.	CIBC	Vikram Gulati
16.	CIBC	Danny Leca
17.	CIBC	Jim Newman
18.	CIBC	Kapil Sharma
19.	CIBC Mellon	Frank Baron
20.	CIBC Mellon	Nick Douzenis
21.	CIBC Mellon	Carol Revoredo
22.	CIBC WM	Terry Moore
23.	Connor, Clarke & Lunn	Patrick Robitaille
24.	Desjardins	Zachary Carmel
25.	Desjardins	Francine Duchesne
26.	Desjardins	Lafleche Montreuil
27.	Desjardins	Éric Primeau
28.	Desjardins	Jean-Gabriel Vigneault
29.	DTCC ITP	Tasneem Novak
30.	DTCC	Vikash Saunders
31.	E&Y Canada	Alexandra Nestyurkina
32.	E&Y Canada	Chris Pimentel
33.	IFIC	Pamela Egger
34.	IFIC	Janet Salter
35.	IIROC	Muneeb Ahsan
36.	IIROC	Catherine Drennan
37.	IIROC	Bruce Grossman
38.	Invesco	Caroline Mingfok
39.	L&T Infotech/IFIC	Janaki Nagulan
40.	L&T Infotech	Kim Barrett

Attendance	Organization	Member
41.	Manulife	Bill Devolin
42.	Morgan Stanley	Brian Choy
43.	Morgan Stanley	Mazen Ghanem
44.	 National Bank	Anna Tyniec
45.	Northern Trust - Legal	Scott Kelly
46.	OSC	Aaron Ferguson
47.	OSC	Nick Hawkins
48.	 OSC	Annetta Ho
49.	OSC	Frank Lacroce
50.	 OSC	Michael Tang
51.	OSC	Emily Sutlic
52.	OSC	Stephanie Wakefield
53.	 Questrade	Lawrence Horowitz
54.	 RBC - IS	Alan Tonner
55.	Scotiabank	William Finn
56.	Scotiabank	Julia Piergeti
57.	 Société Générale Capital Canada Inc.	Maxime Frézal
58.	 Société Générale Capital Canada Inc.	Louis-Philippe Nadeau
59.	Société Générale Capital Canada Inc.	Marc-Antoine La Rochelle
60.	Société Générale Capital Canada Inc.	Anna Wong
61.	 State Street	Christen Henry
62.	State Street	Rose Mark
63.	TD	Ellen Lee
64.	 TD	Riyaad Munshi
65.	 TD	Naudia Nelson
66.	TD	Rajiv Ranjan
67.	TD	Aamir Shahzad
68.	TD	Lucy Vetro
69.	TD Asset Management	Jasvir Bhogal
70.	 TD Asset Management	Kenneth Poon
71.	TD Wealth	Paul Garnavos
72.	TD Wealth Governance & Control	Elodie Goncalves
73.	TMX	Alexandre Prince
74.	 Torstone	Dave O'Marra
75.	Vanguard/CEFTA	Jessica Stern

Keith Evans

Executive Director

kevans@ccma-acmc.ca

416-365-8594

Month Day, 2023

To the Canadian Securities Administrators ("CSA"):

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority
of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Nova Scotia Securities Commission

Financial and Consumer Services Commission (New
Brunswick)
Office of the Attorney General, Prince Edward Island
Securities Commission of Newfoundland and
Labrador
Superintendent of Securities, Yukon Superintendent
of Securities, Northwest Territories
Superintendent of Securities, Nunavut

c/o

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor
Toronto, Ontario
M5H 3S8

E-mail: comments@osc.gov.on.ca

M^e Philippe Lebel
Corporate Secretary and Executive Director,
Legal Affairs
Autorité des marchés financiers
Place de la Cité, tour Cominar
2640, boulevard Laurier, bureau 400
Québec (Québec) G1V 5C1
E-mail: consultation-en-cours@lautorite.qc.ca

Dear CSA Members:

Re: Request for Comments on National Instrument (NI) 24-101 regarding T+1 Settlement

On behalf of the members of the Canadian Capital Markets Association ("CCMA"), I am responding to the CSA's Proposed Amendments to NI 24-101 *Institutional Trade Matching and Settlement* ("NI 24-101") and Proposed Changes to Companion Policy 24-101 *Institutional Trade Matching and Settlement* ("CP 24-101") (collectively, "T+1 Proposals"). CCMA members may also respond individually on particular matters that the T+1 Proposals raise.

The CCMA notes that the CSA also issued CSA Staff Notice 81-335 *Investment Funds Settlement Cycles* ("Staff Notice") contemporaneously with the T+1 Proposals. The CSA indicated that it currently is not proposing amendments to National Instrument 81-102 *Investment Funds* ("NI 81-102"). The CCMA requires additional time to review the Staff Notice and NI 81-102 in order to assess the impact on the industry and investors.

Below is background information relating to the CCMA and shortened settlement.

Background

The CCMA is a national, federally incorporated, not-for-profit organization, launched in 1999 to identify, analyze and recommend ways to meet the challenges and opportunities facing Canadian and international capital markets. Its mandate is to communicate, educate and help co-ordinate the different segments of the Canadian investment industry on projects spanning multiple parts of Canada's capital markets.

In 2015, the CCMA was tasked with co-ordinating the move to a T+2 settlement cycle. This move was successfully completed in September 2017.

In 2021, the CCMA was similarly tasked to co-ordinate the further shortening of the Canadian settlement cycle as currently proposed in the United States. At present, the final Securities Exchange Commission ("SEC") rule mandating the specific length of the settlement cycle in the United States and the compliance date for achieving such has not yet been published - it is expected that the final rule will be published by the end of the first quarter of 2023. Industry observers are of the view that the move to shorten the settlement cycle is likely to target T+1 settlement first and then move to T+0. To the extent that the U.S. proposes adoption of a settlement period other than T+1 (for instance, a move to same day settlement without an interim step to T+1), the CCMA notes that the T+1 Proposals would need to be revisited in order for Canada to synchronize with the U.S. Additionally, while a proposed SEC rule indicates a compliance date of March 31, 2024, industry commenters on both sides of the border (including the CCMA) are seeking a 2024 compliance date similar to that for the move to T+2 (i.e. transition over the Labour Day weekend) for a number of reasons, some set out in the CCMA's response to the SEC request for comments.¹

To ensure a smooth and timely adoption of a shortened settlement cycle at the same time as the U.S., the CCMA works through an industry steering committee and four working groups. More than 500 committee and working group members, comprised of individuals working for investment and asset managers, investment fund manufacturers, investment and mutual fund dealers, custodians, infrastructure entities, service bureaus, vendors, regulators, self-regulatory organizations, and others, continue to discuss issues and solutions relating to the move to a shortened settlement cycle. As well, more than 150 individuals have subscribed to CCMA T+1 newsletters or attended an event at which the CCMA has presented on T+1. More stakeholders are kept informed through the CCMA's partnering associations, service bureaus and vendors. Others access the CCMA's website, www.ccma-acmc.ca, for updates and tools, as well as social media applications. Additionally, CCMA staff participate in U.S. industry meetings concerning the shortened settlement project and it is expected that the CCMA would also have a seat at the U.S. Command Center during the transition phase (as it did for the T+2 initiative).

The CCMA appreciates the efforts by the CSA and self-regulatory organizations to communicate with and encourage registrants to become and stay engaged in the shortened settlement

¹ <https://www.sec.gov/comments/s7-05-22/s70522-20123491-279328.pdf>.

initiative and to implement the required process and system enhancements to achieve a shortened settlement cycle. The CCMA believes a shortened settlement cycle is critical for Canada's capital markets (and all of its stakeholders, including investors, issuers, and registrants) and the broader economy.

Proposed Amendments

Repeal of T+2

The CCMA agrees with the T+1 Proposals to repeal "T+2" in the definitions section of NI 24-101. Whether the U.S. migrates to T+1 or a shorter period, with the Canadian industry committed to moving in synch with the U.S., references to a T+2 settlement cycle will no longer be relevant.

Trade Matching Deadline

The CCMA raises concern with the proposal to achieve institutional trade matching by 9:00 p.m. Eastern Time on trade date ("T") (currently established as noon on T+1) as provided in the suggested amendments to s. 3.1(1) and s. 3.3(1).² While the 9:00 p.m. Eastern Time on trade date may align with a similar proposed deadline in the U.S., it does not account for the later overnight settlement cycle at the clearing agency, CDS Clearing and Depository Services Inc. ("CDS"). The CDS overnight settlement cycle currently commences after 3:59 a.m. Eastern Time on T+1, meaning that trades can be matched up until this time and still achieve "overnight" T+1 settlement. Furthermore, even if matched by 9:00 p.m. Eastern Time on T, the trades will not be processed by CDS until after 3:59 a.m. Eastern Time on T+1. While it may be possible for CDS to undertake a systems and process redesign to advance the overnight settlement deadline, this would add considerable execution risk to the overall shortened settlement cycle initiative by, among other things, applying additional resource demands on CDS and its participants at a time when such resources are already fully engaged on the CDS post-trade modernization project.

There are other considerations. While the industry has agreed to meet a best practice of submitting allocated ITP³ trades by 8:00 p.m. Eastern Time on T, it would place buy-side firms/custodians under considerable shortened time constraints to affirm trades by 9:00 p.m. Eastern Time on T. Where buy-side firms/custodians need to refine or adjust their practices and processes to meet a shortened settlement cycle, it would be prudent to provide the largest timeframe possible for these entities to affirm trades (i.e. up to 3:59 a.m. Eastern Time on T+1) and provide the opportunity for those entities in European, Asian and other time zones where markets may be open to make any corrections and issue recall notices. Furthermore, while there are rules (regulatory or otherwise) applying to investment dealers to require timely institutional trade matching, an equivalency does not exist for buy-side firms or custodians. Changing the current matching deadline from noon Eastern Time on T+1 to 9:00 p.m. Eastern Time on T would likely require the rule to be codified to apply to buy-side firms and custodians in order to avoid a

² Similarly referenced in s. 2.2 of CP 24-101.

³ Institutional Trade Processing.

proportionally large increase in failed trades - a 3:59 a.m. Eastern Time deadline on T+1 would be more attainable for buy-side firms and custodians and likely reduce the need for a regulatory approach for such entities.

On a final note, if the SEC determines to adopt T+1 and directs a move to T+0 some years hence, using resources to shift from the current 3:59 a.m. overnight cycle (and proposed CCMA trade matching deadline) to 9:00 p.m. could result in an expensive temporary solution. In such an event, resources may be better spent on the work to achieve the end goal (T+0) rather than on an interim step of 9:00 pm.

With this in mind, the CCMA recommends that the deadline in s. 3.1(1) of NI 24-101 be 3:59 a.m. on T+1 rather than that proposed in the T+1 Proposal.

Form 24-101F2 Clearing Agency Quarterly Operations Report of Institutional Trade Reporting and Matching ("Form 24-101F2") and Form 24-101F5 Matching Service Utility Quarterly Operations Report of Institutional Trade Reporting and Matching ("Form 24-101F5")

The CCMA agrees that Form 24-101F2 and Form 24-101F5 should be amended to reflect the shortening of the settlement cycle. The collection of data reflecting a T+2 settlement cycle will no longer be useful. While the CCMA acknowledges that T+1 is likely not the "end of the line" for shortening the settlement cycle, the incorporation of data points reflecting a potential same-day settlement may not be useful at this juncture. A shift to same-day settlement will require very significant process and systems changes across the industry and would likely require many years to complete (at least, more years than the move to T+2 or T+1). The value of assessing matching data points at noon on T is not clear when the industry is targeting a later deadline. Additionally, if the matching deadline is moved to 3:59 a.m. Eastern Time on T+1 as recommended by the CCMA, this is a more relevant data point than 9:00 p.m. on T.

The CCMA recommends that the institutional trade matching ("ITM") data reporting requirements for Form 24-101F2 and Form 24-101F5 be (all times Eastern Time): T at 4:00 p.m. (as now; the close of the markets), T at 8:00 p.m. (aligning with the industry best practice deadline), T at midnight, T+1 at 3:59 a.m. (reflecting the start of CDS's overnight settlement cycle), T+1 at 12:00 p.m., T+1 at 4:00 p.m., and after T+1.

Repeal of the Exception Reporting Requirement in Part 4 of the Instrument

The CCMA agrees with the repeal of the exception reporting requirement in NI 24-101, reflecting a codification of the current reporting moratorium provided that where industry statistics indicate an insufficiency of ITM matching, that aggregate statistics as reported by the clearing agency and matching service utilities facilitate identification at a firm level of insufficient ITM matching. Drill down into the statistics at this level would enable appropriate remediation efforts to improve ITM matching rates.

Alternatives

The CCMA concurs that there are no reasonable alternatives to the proposed changes. Failing to align with the U.S. by not shortening the settlement cycle would result in undesirable systemic risk and could lead to confusion in the markets with respect to settlement that could put investors at risk.


Conclusion

The CCMA believes that a further reduction in the settlement cycle from T+2 is more challenging than the earlier move from T+3 to T+2. While CCMA progress on the shortened settlement initiative is at or ahead of that for T+2 at this point, increasing efforts on an industry basis are required due to the additional complexities of further shortening of the settlement cycle. The removal of at least one settlement day in the cycle significantly reduces the margin for error when the settlement cycle is already at T+2.

The CCMA appreciates the support of CSA members to encourage all industry participants to engage in and take the necessary steps to move towards a shortened settlement cycle. The reduction of settlement risk in the industry will benefit the industry as a whole. Aligning the settlement cycle with the U.S. will avoid disruptions in both countries.

The CCMA would be pleased to answer any questions or elaborate on industry views to you at your convenience.

Yours sincerely,
[original signed by Keith Evans]

	<p style="text-align: center;">T+1</p> <p style="text-align: center;">Legal and Regulatory Working Group</p>
Issue: LRWG - 29	Securities Lending
Status	PROPOSED FOR CLOSURE. NO FURTHER LRWG WORK IS REQUIRED.
Description:	Securities on loan need to be recalled for settlement purposes.
What is the issue:	Do agreements need to be modified?
	Do internal processes/procedures/systems need to be modified?
	Do utilities/vendors need to make changes to accommodate any foreseen changes?
Major discussion points:	<p>Securities lending contracts do not hard-code a settlement period: e.g. "...shall be a date no earlier than the standard settlement date for trades of the Securities subject to the Loan on the date of such notice."</p> <p>The 2017, 2000, and 1993 MSLA versions were amended in light of the move to T+2 settlement. See, e.g., s. 6.1(a) of the 2017 version.</p> <p>https://www.sifma.org/wp-content/uploads/2017/06/MSLA_Master-Securities-Loan-Agreement-2017-Version.pdf.</p>
	Review of securities lending contracts and processes.
Guidance re: Reg SHO and sec lending https://www.ust2.com/pdfs/T2-Reg-Sho-Guidance.pdf	<p>Rule 200(g)(1) of Regulation SHO.</p> <p>The "deemed to own rule" as stated by the SEC in its Adopting Release - Close outs on sales marked "long" - (under T+2 settlement cycle) if a loaned security is sold, and the sec. lending agreement states delivery required within 2 days of a recall, then recall must be made no later than two settlement days after trade date of the sale (i.e. by T+2). This results in a latest delivery of T+4 which is prior to mandatory close-out on the 3rd consecutive settlement day following settlement date. If the loan agreement said recall within 3 days, then would need to recall by T+1 (i.e. latest delivery by T+4).</p>

Reg SHO § 242.204 Close-out requirement.	(a)(1) "If a participant of a registered clearing agency has a fail to deliver position at a registered clearing agency in any equity security and the participant can demonstrate on its books and records that such fail to deliver position resulted from a long sale, the participant shall by no later than the beginning of regular trading hours on the third consecutive settlement day following the settlement date, immediately close out the fail to deliver position by purchasing or borrowing securities of like kind and quantity. "
Recalled securities must be obtained by T+3	<u>The recalled securities must be obtained by T+3 in a T+1 settlement cycle environment</u> (i.e. prior to the third consecutive day following settlement date) to avoid close out. If sec. lending agreement states delivery within 2 days of recall, the recall must be made by T+1. If sec. lending agreement states delivery within 3 days of recall, the recall must be made by T.
Systems or Parameter changes:	OWG determined no changes required for T+2.
Internal Procedures or Process Amendments:	OWG determined no changes required for T+2.
Is there more work to be done by LRWG:	No.
Additional work to be done by other Working Groups, individual firms, associations:	Internal processes/procedures/systems for securities lending need to be reviewed and modified as required for T+1. Utilities and vendors may need to make system/processing changes. Individual firms should check their current security lending agreements to determine if amendments are required for T+1.
Date of original posting:	17-Friday-Dec-2021
Revised dates:	19-Thursday-Jan-2023
Completed by the LRWG:	YES.
Cross reference to another Working Group log	OWG-009
Closed by T1SC:	