**CCMA - T+1 Operations Working Group**

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**T+1 Operations Working Group**

**Agenda**

**April 11, 2024 at 11:00 AM ET**

**Co-Chaired by:**

Sheera Badial of Canaccord Genuity

Domenic Sgambelluri of Northern Trust

1. **Approval of Minutes from the meeting held on March 14, 2024**
2. **T+1 Steering Committee Update – Keith Evans**
   1. **General Update**
      1. **UK Update**
      2. **Hong Kong**
      3. [**SEC Update**](https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-bulletins/new-t1-settlement-cycle-what-investors-need-know-investor-bulletin)
      4. **Readiness Survey**
3. **Issues for discussion**
   1. **Industry Testing**
      1. **Update from CDS/CDCC**
      2. **Update from Fundserv**
   2. **ETF Task Force update – Jamie Anderson**
   3. **Settlement cycle for inter-listed securities**
   4. **Transition Communications – Keith Evans**
   5. **Review of Issue Log - Sheera/Domenic**
      1. **OWG-033 NI 62-104 Issuer Bids – Jamie Anderson**
      2. **OWG-020 FX Issues – for closure**
      3. **OWG-038 Transition weekend issues – for discussion**
      4. **OWG-022 Ex-Date Processing during T+1 Transitional Period**
4. **Other Business**
   1. **Follow up items**
      1. **CCMA Back out Communication**
5. **Next Meeting May 9, 2024 at 11:00 AM ET**

**T1-OWG - Minutes of March 14, 2024**

Keith Evans of CCMA welcomed attendees to the T+1 Operations Working Group meeting. Keith then turned the meeting over to Domenic Sgambelluri and Sheera Badial.

1. **Approval of the Minutes from the meeting held on February 8, 2024**

Domenic reported that the Minutes from the last T+1 Operations Working Group meeting, held on February 8, 2024, were distributed with the meeting package. There were no additions, subtractions or material corrections requested by members, therefore the Minutes of the meeting were approved as presented.

1. **T+1 Steering Committee Update**
2. Keith provided an update on the activities of T+1 as follows:
   * As of today there are only 74 days until the transition to T+1.
   * Keith reported that Argentina had recently indicated that they will transition to T+1 on May 27th, along with Canada and Mexico. Final regulatory approval is expected shortly.
   * Keith shared the recent ITP stats with members. He indicated that in February of this year, as at midnight on TD, trades entered have reached 87% while only 49% of the trades have been confirmed at that time. The confirmation rate is about half of where we need to be by May 27th. Keith also mentioned that if these numbers are not any better by May, the reduction in collateral for the sellside members will not be realized.
3. **Issues for discussion**
4. Industry Testing –
   1. CDS - Domenic asked George Chung from CDS to provide an update on the status of industry testing. George reported that overall Cycle 3 is going very well. He said that CDCC is participating for the first time, and that their activity is also going well. Cycle 3 will be completed by the end of next week. George also mentioned that after the completion of the 4th and last formal testing cycle. Members can still do some limited testing in the C2 Region.
   2. Fundserv – Since there were no representatives from Fundserv at the meeting, Keith Evans reported that Fundserv has previously reported that all of their industry testing was complete with no issues that need remediation.
5. ETF Task Force – Domenic asked Jamie Anderson of CCMA to update the group. Jamie said that the joint industry letter (reviewed at last month’s meeting) had been forwarded to the OSC. Additional communications with the OSC have been held, with further clarification needed by the OSC. Jamie shared a summary of courses of actions based on conversations with the OSC. Jamie then shared two documents with the members. The first was an additional letter to be submitted to the OSC with further analysis concerning why some firms are uncertain as to collateral permissibility and why other firms believe collateral is permissible (for delayed basket securities). After reviewing the material (attached to the end of these Minutes), Jamie indicated that a request for guidance is preferred as guidance would be transparent to the industry; and the recommendation of the ETFTF is to submit to the OSC (instead of the full CSA) due to timing. He reported that the CETFA group still needs to review and approve before we finalize our joint submission. In addition, Jamie shared a second report (attached to the end of these Minutes), that describes the proposed operational ‘Guidelines’ that support the processes outlined in the letter submitted to the OSC. Members had no objection to any of the options discussed. Once the final report to the OSC has been determined, the T+1 Steering Committee will approve these documents. Keith asked members to review these processes internally to ensure that there are no issues.
6. T+1 Project Acknowledgement Form – Keith referred to the form included in the meeting package. He said that CCMA will be distributing the Project Acknowledgement forms to a group of members to indicate their readiness for the transition to T+1. He said that this is virtually identical to the one sent via CCMA for the transition to T+2. He then shared a list (also included in the meeting package) of members for which the Project Acknowledgement Form will be sent. After discussion, it was agreed to add Citibank to the list of Custodians and Agora to the list of Carrying Brokers. CDS indicated that they plan on asking their participants to sign a similar form, as they did in the move to T+2 in 2017.
7. Transition Communications – this item was deferred to the next meeting.
8. Securities Lending - Update – Domenic asked Phil Zywot of CASLA to provide an update to the group. Phil reported that CASLA and its members have made significant processes. CDS and the recall hub is now in final testing. They continue with a bi-weekly meeting on the subject, and vendors are in the final stages of integrating their systems with the Recall Hub. Many CASLA members have been streamlining their internal processes, batches, etc.to ensure a smooth transition. CASLA, RMA, and Sifma are working together to ensure a coordinated process across North America. To a question asked, Phil reported that work is still ongoing to determine, amongst other things, the cut-off time for same day recalls.
9. NI 62-104 Take over bids. Domenic asked Jamie Anderson to report on this subject. Jamie said that a draft letter, for review and approval is expected to be presented for the next meeting.
10. **Other Business**

* Domenic asked Johann from CDS to give an update on discussions with Computershare and TELUS. Johann reported that CDS has held a meeting with Computershare about some options to find a better/quicker solution for getting ‘Constraint’ shares into CDS for settlement. Computershare will speak with TELUS and will report back at a future meeting. Any changes will be communicated by CDS.
* Domenic asked Barb to provide an update on SWAPs. She reported that ISDA, CCMA, and Sifma have been working on a document on the subject.
* Barb additionally reported that CCMA will be issuing a final ‘Readiness’ survey next week. She encouraged everyone to take the five minutes to complete the survey.
* Domenic asked CDS Risk to provide an update on Collateral Pools. Newton Hong said that many of the changes discussed at the last meeting, with  
  respect to intra month resizing of pools, have been further discussed by the  
  CDS RAC committee and approved at the SDRC. Currently, CDS Regulators are reviewing the timeline changes in the CDS Procedures.
* CDS reported that they are not considering making any changes to the T+1 process related to trade error corrections or reversals in CDSX. The CDSX platform is due to be retired – In addition to the complexity and time needed to develop and implement changes on the legacy platform, such change would be a throw-away solution and a poor investment in light of where the industry is headed. Thus, any permanent CDS solution would have to wait until after PTM implementation. After T+1 implementation, CDS will monitor the error correction process and will assess whether this is indeed an issue to be addressed. If so, CDS will form a taskforce with exchanges and participants to develop a problem statement and possible solutions. If the solution requires system changes such development will be done after PTM implementation. Regarding the request to ensure that marketplaces submit trade files with the correct settlement date (other than T+1). CDS is not in a position to determine the validity of trading activity that happens at the marketplaces and therefore, will not consider implementing any edits to reject trades with a settlement period other than T+1. There are valid cases for trades under special settlement rules to settle T+0 up to T+N that are determined at the trading stage, prior to post-trade processing at CDS. However, if the industry requires edits to halt processing of an exchange trade file, if for example more than 90% of trades in such file has a settlement date other than T+1, CDS will investigate the possibility to do system development to implement such edits. Again this will be developed only after PTM implementation.
* CDS reported that they will start reporting on Entitlement events and Corporate action events, starting in late April and will reported weekly until the end of transition. This reporting will include events during the transitional period.
* A question was asked if CCMA would be issuing a statement that the T+1 project cannot be backed out, unless the SEC in the US postpones the implementation in the US. Keith agreed that CCMA could issue something. He isn’t quite sure what form that will take, but will report back at the next meeting.

1. **Next Meeting**

The next meeting of the CCMA - T+1 Operations Working Group will be scheduled for April 11, 2024, at 11:00 AM Eastern.

**ATTENDEES**

|  |
| --- |
| Adetoun DInah |
| Ali Jaffer |
| Allan Bisessar - HOOPP |
| Althea Daley |
| Amit Joshi |
| Amy Fisher |
| Andrea Brake |
| Andrew Malenowski |
| Anna Campagnaro |
| Anna Meshcherova |
| Anna Tyniec |
| Anne-Claire Hurillon |
| Annmarie Thompson |
| Arman Sabanal |
| aruffudeen |
| Barb Amsden |
| Barry McIntyre - TDSecurities |
| Bernd Schwericke |
| BNS - Hinkson |
| Bobbisue |
| bodenvald |
| Brandi Branson-EDJC |
| Brian Choy |
| Brianna BoC |
| Carlos Merino |
| Carolyn Sebek |
| Casey Als - TD |
| cfaull |
| Chioma O |
| Chong, Kelly |
| Dan Brennan |
| Daniel Bailey |
| Daniel Farley |
| Daniel Shu |
| Danny Leca CIBC |
| Darren Price |
| David Connolly |
| David O'Marra |
| Dawn Davies |
| Deepak Datt |
| Denis Drogan - IC |
| Denny Mendonca |
| Dianne Duffy |
| Dipietro, Bruna |
| Dom Sgambelluri |
| Domenica G. |
| Doug Gifford |
| Edson (Scotiabank) |
| Edward Ferry |
| Elaine Partridge |
| Elizabeth Mikichak |
| erosoninha |
| Farhan |
| fbattaglini |
| Femisha |
| Francis Coche AMF |
| Frank Baron - CIBC Mellon |
| Frank Battaglini - SS&C (fbattaglini) |
| Franklin Lacroce OSC |
| George Chung [TMX-CDS] |
| Greg Sutton - CIBC |
| Gustavo |
| GYee |
| Ha Luong |
| Halyna |
| HARDIK SHAH |
| Harry Li - Broadridge |
| Helen Karela - TMX Group |
| Ian Hooper |
| Ian Jamieson |
| Ian Upjohn |
| iPhone |
| Jaime Marasigan |
| James Fernihough TDS |
| Jamie Anderson - CCMA |
| Jason Dear @ BNS |
| Jeff Lunshof |
| Jen Vasquez |
| jholjeva |
| Johann Lochner - CDS |
| John M |
| Joseph Lam |
| Judith Marcelo |
| Kaitlyn O'Donnell |
| Kamol Mavlyanov |
| Katarina Savic |
| Keith Evans - CCMA |
| Kevin Duncan |
| Kimberly Lam |
| Kristen Little |
| Laura Leitch |
| Laxman |
| lebmin01 |
| Liam Rodenburg |
| Lotharius, Ana |
| Louis Lesnika - CIBC Mellon |
| Lyndon James |
| M Bowers |
| Mamadou |
| Manda, Navin |
| Marc Nameri |
| Marco |
| MarepallyAn |
| Margaret’s iPhone |
| Marie-Claude Lamond - Triasima |
| Mark Cicero- BMO |
| Mathew Isaac |
| Matthew Andreacchi (OSC) |
| Mazen Ghanem |
| Meaghan Li |
| Mee Chee Beutel |
| Michael Cagayat |
| Michael G. - BMO |
| Michael Lowes - TD Securities |
| Michael Palmiotto |
| Michelina Crecco BMO |
| Mieka Halliday-Gunn |
| Mona |
| Mya AIT-ALI (LBS) |
| Natalia Markelova |
| Natalie |
| NCadotte |
| Newton Hong (TMX) |
| Niama Afifi (LBC) |
| Niranjan Rudraradhya |
| Olga Svistoun - BMO |
| Pascal Deslauriers - Desjardins |
| Pat Dunwoody |
| Patrick |
| Patrick Owens |
| phil vallee |
| Phil Zywot, CASLA/BNY Mellon |
| Pierre Mital - Casgrain |
| Raj |
| Reinhard Keil |
| Rene Wade - Mackenzie Investments |
| Ricardo Dacosta - IRESS (Ricardo Dacosta) |
| Rick Frise |
| Ridhima Mishra- Bank of Canada |
| Robert Argue |
| Roger Yin |
| Rohmin Raisi |
| Ronald Osei - TD |
| Roy Gamboa - TD |
| Roy Manio |
| Ruell Gomez |
| RuthA |
| Saleem Salahuddin |
| Sam |
| Satish Krovvidi - TDSI |
| Scott Abbott |
| Senem |
| Shaun Noorzay |
| Shehan Huq |
| Sridevi Ganesan |
| SteblaiD |
| Stefan Bijelic - Scotiabank |
| Steve Lim |
| steve.menchions |
| Svetlana Perunova |
| t\_puls |
| Tabassum Hawlader |
| Tammy Savinkoff |
| Tara Dobson (ATB) |
| Theresa Trapp |
| Tom Beaton (CIBC Mellon) |
| Toni McMillion |
| Tony Kalvik |
| TsuiC |
| VALLEP3 |
| Vasu Ganesan - Wealthsimple |
| Vince Long |
| Walter Raposo - Cboe Canada (Walter Raposo - MATCHNow) |
| Weijia Luan |
| Welch, Michael |
| Wilfred |
| Winston Poh |
| wyoung |
| XFMJHC9 |



By email March , 2024

|  |  |
| --- | --- |
| Keith Evans  Executive Director kevans@ccma-acmc.ca 416-365-8594 | Pat Dunwoody  Executive Director patdunwoody@cefta.ca 647-256-6637 |

Attention:

Staff of the Investment Funds & Structured Products Branch

Ontario Securities Commission

20 Queen Street West, 22nd Floor

Toronto, Ontario M5H 3S8

E-mail: rchan@osc.gov.on.ca; dmckall@osc.gov.on.ca; mtang@osc.gov.on.ca

Dear OSC Staff:

# Re: Additional Analysis – Update to February 26, 2024 Request for Regulatory Guidance – Acceptable Use of Cash Collateral for Delayed Basket Securities in ETF Subscriptions

Further to the letter submitted on behalf of the members of the Canadian Capital Markets Association (“CCMA”) and the members of the Canadian ETF Association (“CETFA”) on February

26, 2024, we are providing additional analysis with respect to the industry guidance sought from

OSC Staff regarding the permissibility under National Instrument 81-102 Investment Funds (“NI 81-102”) of the acceptance of cash collateral for “Delayed Basket Securities” in the exchange traded funds (“ETF”) unit subscription process.

# WHY SOME FIRMS ARE UNCERTAIN AS TO CASH COLLATERAL PERMISSIBILITY

As noted in the industry letter dated February 26, 2024 (“February Letter”), there is uncertainty in the industry as to the permissibility of cash collateral for Delayed Basket Securities. While the lack of collateral references in the Investment Company Act of 1940 (“40 Act”) has not dissuaded firms from using cash collateral in the U.S., there is hesitancy for some firms operating in Canada. While the payment provisions in NI 81-102 do not refer to collateral (similar to the 40 Act), there is a reference to collateral in the securities lending provision:

Securities Loans

2.12 (1) Despite any other provision of this Instrument, an investment fund may enter into a securities lending transaction as lender if the following conditions are satisfied for the transaction:

…

3. Securities are loaned by the investment fund in exchange for collateral.

## DRAFT

Delivery of Funds and Settlement

9.4 (1) …

(2) Payment of the issue price of securities of a mutual fund must be made to the mutual fund on or before the second business day after the pricing date for the securities by using any or a combination of the following methods of payment:

1. by paying cash in a currency in which the net asset value per security of the mutual fund is calculated;
2. by making good delivery of securities if
   1. the mutual fund would at the time of payment be permitted to purchase those securities,
   2. the securities are acceptable to the portfolio adviser of the mutual fund and consistent with the mutual fund's investment objectives, and
   3. the value of the securities is at least equal to the issue price of the securities of the mutual fund for which they are payment, valued as if the securities were portfolio assets of the mutual fund.

Some firms out an abundance of caution have questioned the regulatory intent. Does the absence of a collateral reference in s. 9.4 mean cash collateral is not permitted? Or does the absence reflect that because payment is flexible (i.e. securities, cash, or a combination thereof), it was not necessary to specifically refer to collateral? Rather than make an incorrect conclusion on the regulatory intent, some firms have chosen to adopt a conservative approach and not permit cash collateral for Delayed Basket Securities.

# WHY SOME FIRMS BELIEVE CASH COLLATERAL IS PERMISSIBLE

As discussed, payment of the issue price for ETF units may be in cash, securities, or a combination of both. In some circumstances at the time of subscription, an AP may agree to pay cash for ETF units. In other situations, it may be agreed that securities will be delivered as payment (i.e. cash payment is not anticipated). If for some reason an AP is unable to deliver the agreed-upon securities, the subscription will be a failed trade and need to be unwound unless the AP pays otherwise – either by (a) a cash-in-lieu delivery made as a replacement payment (i.e. the original trade is “busted” and replaced with a cash trade and the securities will never to be delivered), or (b) cash collateral[[1]](#footnote-1) delivered as a temporary replacement with an agreement to deliver the securities at a later date. Whether cash is received under (a) or (b), the cash delivered is considered to be cash payment as permitted under s. 9.4. The cash is held in the ETF’s account without any security interest being granted to the AP – it is wholly within the control of the ETF.

Firms also see no policy reason why the Canadian regulators would determine that cash collateral should not be used for Delayed Basket Securities. If an ETF lent the securities it received as payment immediately back to the subscribing AP, the ETF would be in the same position as if it received cash collateral for Delayed Basket Securities. In each situation, the ETF holds an amount of cash that exceeds the value of the securities it is waiting for be delivered.

# REQUEST FOR GUIDANCE AND PUBLICATION

The question remains to OSC staff: “Can an ETF accept the delivery of cash, to be held by the fund as collateral until Delayed Basket Securities are delivered by an AP, to satisfy the requirements of section 9.4 of NI 81-102?”

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

Yours sincerely,

“Keith Evans” “Pat Dunwoody”

Executive Director Executive Director

Canadian Capital Markets Association Canadian ETF Association

DRAFT Page 3 of 3

Cash Collateral for Delayed Basket Securities – ETF Unit Subscriptions – Governance and Operationalization

Cash collateral for Delayed Basket Securities is an optional, exception process that may be used by agreement between parties where an authorized participant requires exchange traded fund (“ETF”) units on the subscription settlement date but is unable to deliver Basket Securities.[[2]](#footnote-2)

The governance parameters have been recommended by the CCMA’s T+1 Operations Working Group and agreed to by the CCMA’s T+1 Steering Committee and recommended by CETFA’s Policy Committee and approved by the CETFA Board of Directors.

|  |  |
| --- | --- |
|  | Governance Parameters |
| The  collateral: | has a market value equal to at least 102 percent of the market value of Delayed Basket  Securities |
| transaction is made under a written agreement implementing the Governance Parameters |
| transferred by the purchaser is immediately available for good delivery under applicable legislation |
| is received by the ETF either before or at the same time as it delivers the ETF units |
| is marked to market on each business day, and the amount of collateral in the possession of the ETF is adjusted on each business day to ensure that the market value of collateral maintained by the ETF in connection with the transaction is at least 102 percent of the market value of the Delayed Basket Securities |
| is held by the custodian an account in the name of the ETF |
| Realization of collateral | In good faith by the ETF at any time |

The following operational guidelines have been recommended by the OWG’s ETF Task Force for adoption by the OWG and CETFA.

|  |  |
| --- | --- |
| Operational Guidelines | |
| 1. Minimum notice to Authorized Participants to realize on cash collateral | * Three (3) business days * Notice may be given after the settlement date; realization occurring no earlier than notice date plus three (3) business days. |
| 2. Delivery of cash collateral | Through CDS |
| 3. Currency of cash collateral | In the currency of the trade |
| 4. Deadline of delivery of cash collateral | * Target delivery by 3:30 p.m. ET on settlement date. * Later delivery of cash collateral (up until payment exchange - currently 4:00   p.m. ET) addressed on a best efforts basis |
| 5. Timing of cash collateral return | Upon delivery of Delayed Basket Securities, cash collateral to be returned as soon as possible (typically same day) |

20240314

|  | 1. CSA Staff Notice | 2. OSC Staff Notice | 3. OSC responds with separate, private emails to each firm | 4. Posting of an industry letter on OSC eNews Investment Funds Branch Portal – no OSC response | 5. Do nothing - No guidance, approvals, views from the regulators |
| --- | --- | --- | --- | --- | --- |
| Jurisdiction | All | Ontario  (likely other jurisdictions would follow) | Ontario | Ontario | All |
| Legal analysis: why collateral is permitted (& not permitted) under s. 9.4 | Required | Required | Required | Not necessary | n/a |
| Formal approval | All jurisdictions | ON | None | None | n/a |
| Timing | Very unlikely prior to May 27, 2024 | Probably not before May 27, 2024 | Each individual firm sends their own email inquiry. Volume determines OSC response time. | * Time to prepare letter * Provided letter is “acceptable”, posting is quick | n/a |
| Considerations |  |  | * OSC responses not to be shared or publicized * Perhaps only firms needing an answer would make inquiry * If a firm states collateral is not permitted, then they would need to ask for relief. However, maybe they could state that they understand that other firms are using collateral (may still beg the question of why they think collateral is not permissible). * Not transparent to the full industry | * Letter outlines the “practice” re collateral * Firms that believe the practice is not permissible, what will they do? * Is the posting of the letter enough? * What about other jurisdictions? | * Letter already submitted and publicized (retract?) * Firms that believe practice is not permissible, what will they do? |

CSA has also asked for statistics regarding delayed basket securities.

1. Haircut, marked-to-market, etc. as described in the February Letter.

   DRAFT Page 2 of 3

   [↑](#footnote-ref-1)
2. Delayed Basket Securities are late-delivered Basket Securities that were agreed (at the time of subscription) to be delivered by an authorized participant (“AP”) to an ETF by the settlement date for an in-kind subscription for ETF units. An AP may subscribe for ETF units by delivering to the ETF manager as consideration for the purchase a group of securities approved by the manager of the ETF (“Basket Securities”). [↑](#footnote-ref-2)