T+2 – Not a New *Star Wars* Character

Source: Lucasfilms

For Star Wars fans fresh from watching the late 2015 release of *The Force Awakens*, "T+2" might sound like a new character joining R2-D2 and C-3PO. Remember C-3PO? A protocol droid designed to serve human beings with etiquette, customs and translation in meetings of entities of different cultures to help things run smoothly? In a way, T+2 serves a similar function – reducing barriers to the smooth operation of securities trading activities. If you're serving clients, here's what you should know.

The term "T+2" (and likewise T+0, T+1, T+3, and so on) refers to the number of days between when a trade is executed – trade date or T – and the day it settles, when the buyer's payment for a securities trade is exchanged for the securities of the seller. In 1995, Canada and the U.S. together shortened the settlement cycle for most debt and equities to T+3 from T+5.

Fast forward 20 years. Major markets in the Asia-Pacific region now have shortened the settlement cycle for stocks and bonds to T+2. In 2014, most European Union countries harmonized and cut their debt, equities and fund unit settlement cycles to T+2. Australia and New Zealand shortened their cycle to T+2 on March 7, 2016. The U.S. is moving to T+2 in Q3 2017 and Canada is preparing for the same.

'Why now' is clear: a shorter trade-to-settlement cycle supports a more efficient, safer, and competitive marketplace. From an efficiency perspective, T+2 will lower counterparty, market and liquidity risks and costs by reducing outstanding settlements. As to safety, changes to move to T+2 will lead to increased automation of operational processes across organizations through converting securities certificates to electronic holdings, same-day affirmation (SDA) of trade details, alignment between linked markets and streamlined trade corrections. And a 1999 Charles River Associates study showed Canadian capital markets should change the settlement cycle at the same time as the U.S. for competitive reasons. This isn't surprising as about 40% of trades on Canadian exchanges are in inter-listed securities and Canada-U.S. cross-border transactions make up nearly 25% of the millions of trades processed annually in Canada. As well, different settlement dates have the potential to add complexity, confuse investors and cause errors.

How will this affect clients? While many won't notice a difference, clients that still deliver cheques or certificates, or have margin accounts, will need to meet tighter standards. High-net-worth clients who trade internationally are likely aware of this due to changes globally, but other retail customers may have to change their practices. While systems changes are needed to support T+2, behavioural changes can be tougher.

Directly or indirectly, stakeholders across the securities industry are (or soon will be) involved in the T+2 project. The Canadian Capital Markets Association (CCMA), working with associations representing the different parts of the industry, market infrastructure, service providers, vendors and regulators, is promoting and facilitating co-ordination of the many activities necessary to cut over to T+2, planned for September 5, 2017.

In a nutshell, as investors' horizons are increasingly global, opportunities to simplify cross-border trading help support efficient markets and position clients in Canada and global investors into our markets to more easily navigate the environment. Fans of Star Wars and reducing risks in securities settlement should agree that T+2 is indeed the droid we're looking for.

To stay on top of T+2, contact your industry association, bookmark www.ccma-acmc.ca or e-mail CCMA executive director Keith Evans at kevans@ccma-acmc.ca to request periodic updates.