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To the Canadian Securities Administrators (“CSA”):

British Columbia Securities Commission	Financial and Consumer Services Commission (New Brunswick)
Alberta Securities Commission	Office of the Attorney General, Prince Edward Island
Financial and Consumer Affairs Authority of Saskatchewan	Securities Commission of Newfoundland and Labrador
Manitoba Securities Commission	Superintendent of Securities, Yukon Superintendent of Securities, Northwest Territories
Ontario Securities Commission	Superintendent of Securities, Nunavut
Autorité des marchés financiers	
Nova Scotia Securities Commission	

c/o

The Secretary
Ontario Securities Commission
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Corporate Secretary and Executive Director, Legal Affairs
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Dear CSA Members:

Re: Request for Comments on the T+1 Proposals

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.

CSA Staff Notice 81-335 *Investment Funds Settlement Cycles*

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. While we are not currently aware of any potential adverse impacts on the industry or investors, we would provide comments at a later date should they arise during our work on the T+1 project.

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 then proposed in the United States.

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 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.

Effective Date for the Proposed Amendments and Proposed Changes

The final Securities Exchange Commission ("SEC") rule¹ mandating a T+1 settlement cycle in the United States was approved on February 15, 2023.² While major industry commenters on both sides of the border (including the CCMA) sought a 2024 compliance date similar to that for the

¹ <https://www.govinfo.gov/content/pkg/FR-2023-03-06/pdf/2023-03566.pdf>. SEC Commissioners noted in their approval of the final rule that a further shortening of the settlement cycle (i.e. to T+0) should be pursued in future.

² SEC Open meeting on February 15, 2023. <https://www.sec.gov/news/sec-webcasts>.

move to T+2 (i.e. transition over the Labour Day weekend) for a number of reasons, some set out in the CCMA's responses to the SEC request for comments,³ May 28, 2024 has been selected as the U.S. compliance date. As all Canadian stakeholders have agreed, Canada will transition to T+1 at the same time as the U.S. It is acknowledged that the shorter timeline will cause complications in terms of less time and stress on competing resources with various regulatory and market structure undertakings such as the TMX/CDS Post-trade Modernization project.

In terms of the specific transition date, May 28, 2024 incorporates a long weekend in the U.S. (Memorial Day). However, it is not a three-day weekend in Canada. In light of the lack of a three-day weekend in Canada, the industry has decided to plan for the T+1 settlement cycle commencing in Canada on May 27, 2024. This would allow for the weekend to convert, avoiding the risk associated with: (1) an extremely short conversion timeline (after market close on May 27, 2024), and (2) converting while batch systems are running a T+2 cycle for trades executed on May 27, 2024. As such, the CCMA requests that the final T+1 Proposals come into force on the earlier of the U.S. and Canadian transition dates to T+1.

Publication of the Approved Amendments and Changes

Both Canada and the U.S. industries are under considerable time pressure to effect changes to processes and systems to achieve a T+1 settlement cycle by the end of May 2024. While the U.S. had its final SEC rule approved on February 15, 2023, the T+1 Proposals will not be approved until sometime after.

There will be downstream impact of the approved T+1 Proposals. For instance, service level agreements, policies, procedures, processes, and systems will need to be reviewed, amended accordingly, and agreed to for the purpose of meeting trade entry, allocation, confirmation, and affirmation deadlines that will necessarily flow from the establishment of the trade matching deadline in NI 24-101. It is imperative that the industry move quickly to undertake this work, especially in light of a timeline that is shorter than desired.

The CCMA requests that the regulatory approval process across the CSA jurisdictions be advanced as expeditiously as possible in order to publish the approved T+1 amendments as soon as possible. This will provide market participants, their vendors, and clients with regulatory certainty sooner rather than later, facilitating a greater likelihood of success for the T+1 initiative.

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. With the U.S. migration to T+1 and the Canadian industry committed to moving in synch with the U.S., references to a T+2 settlement cycle will no longer be relevant.

³ <https://www.sec.gov/comments/s7-05-22/s70522-20123491-279328.pdf>.

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).⁴ 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 net settlement processing cycle at the clearing agency, CDS Clearing and Depository Services Inc. (“CDS”). The CDS overnight net settlement processing 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 reduced collateral requirements. 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 and cost 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 TMX/CDS Post-trade Modernization project.

There are other considerations. While the industry has agreed to meet a best practice of submitting allocated institutional trades by 8:00 p.m. Eastern Time on T, it would place buy-side firms and custodians under considerably shortened time constraints to affirm trades by 9:00 p.m. Eastern Time on T. Where buy-side firms and 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 securities loan recall notices. Furthermore, while trade matching requirements in NI 24-101 apply to registered firms (both dealers and advisers registered under securities legislation), an equivalency does not exist for non-registered firms. 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 all participants in the trade matching lifecycle in order to avoid a 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 more expansive regulatory approach.

On a final note, if the SEC 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 all of these considerations, 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 Proposals.

⁴ Similarly referenced in s. 2.2 of CP 24-101.

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.

The CCMA recommends that the institutional trade matching (“ITM”) data reporting requirements by time for Form 24-101F2 and Form 24-101F5 be (all times Eastern Time):

T at noon	As proposed by the CSA
T at 4:00 p.m.	Market Close
T at 8:00 p.m.	Aligning with the industry best practice deadline for allocated trade entry
T+1 at 3:59 a.m.	CCMA-recommended ITM deadline, reflecting the start of CDS’s overnight net settlement processing cycle
T+1 at noon	As proposed by the CSA
T+1 at 4:00 p.m.	CDS Payment Exchange
T+1 11:59 p.m.	As proposed by the CSA
> T+1	As proposed by the CSA

Form 24-101F2 and Form 24-101F5 pertain to data collected for a calendar quarterly period. However, T+1 is expected to not commence at the beginning of a calendar quarter (U.S. compliance date of May 28, 2024 and Canada’s transition on this date or earlier). As was determined by the CSA for the T+2 transition on September 5, 2017, the CCMA recommends that with respect to the first calendar quarter ending after the effective date of the T+1 Proposals, the version of Form 24-101F2 and Form 24-101F5 that were in force on the day before the effective date be used (unless the effective date is the first day of a calendar quarter).

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, that the clearing agency and matching service utilities data facilitate identification at a firm level of insufficient ITM. Drilling down into the data at this level would enable appropriate remediation efforts to improve ITM 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. Increasing efforts on an industry basis are required due to the additional complexities of further shortening of the settlement cycle. With the settlement cycle already at T+2, the removal of at least one settlement day in the cycle significantly increases the risk that errors cannot be resolved within the settlement timeframe.

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 investors and the industry as a whole once the changes are fully in place. 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 at your convenience.

Yours sincerely,

Keith Evans

[original signed by Keith Evans]