Keith Evans
Executive Director
kevans@ccma-acmc.ca/416-365-8594

October 26, 2016

Mr. Answerd Ramcharan
Manager, Financial Information, Member Regulation Policy
Investment Industry Regulatory Organization of Canada (IIROC)
Suite 2000, 121 King Street West
Toronto, ON M5H 3T9
Email: aramcharan@iiroc.ca
Cc: marketregulation@osc.gov.on.ca

Dear Mr. Ramcharan:

Re: Rules Notice 16-0177 – Amendments to Facilitate Investment Industry Move to T+2 Settlement

On behalf of members of the Canadian Capital Markets Association (CCMA) T+2 Steering Committee, please accept this response to Rules Notice 16-0177, released July 28, 2016, entitled *Amendments to facilitate the investment industry's move to T+2 settlement* (the "IIROC T+2 Proposals"). We support the rule changes and appreciate IIROC staff's active and continuing involvement in efforts to move the Canadian marketplace forward to a T+2 settlement regime with the U.S., consistent with what has already been implemented in the European Union, Australia, and New Zealand, and elsewhere. While Dealer Members participating on CCMA committees may be responding directly on specific details of the IIROC T+2 Proposals, the CCMA would like to raise with you only one peripheral issue relating to the transition to T+2 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 T+2 settlement as one such cross-industry initiative.

As you know, since National Instrument (NI) 24-101, Institutional Trade Matching and Settlement, came into force in 2007, there has been a large increase in institutional trades matched earlier in the settlement process. Between 2007 and the fourth calendar quarter of 2015, there were:

- A doubling in the percentage of institutional trades entered, and nearly a quadrupling in trades matched, by midnight on T
- A 16% increase in the percentage of trades entered, and an almost 50% increase in trades matched, by noon on T+1, ready for settlement on T+2.

While entry and matching data vary from month to month and quarter to quarter, close to 95% of trades were reported by broker-dealers to CDS by noon on T+1 and 90% were matched at this time by custodians for their investment manager clients in the last calendar quarter of 2015 on average.

Issue

We have a transitional concern with the proposed IIROC Rules related to T+2 settlement that is not part of the IIROC T+2 Proposals. IIROC Rule 200.2(l)(x)(B)[i] provides that Dealer Members, that have met the quarterly compliant trade percentage and that have not had to file a trade matching exception report for three consecutive quarters, are not required to provide trade confirmations to clients, provided that the clients have agreed in writing to waive receipt of such confirmations. To reduce uncertainty and ensure resources are focused on the primary issues relating to the T+2 change, we request that IIROC consider our proposal below.

Request

We believe our T+2 transition efforts are proceeding well and we are taking appropriate measures for a smooth transition to a shorter settlement cycle. Despite the best efforts, short-term glitches may occur at transition, but are not expected to have long-term impact. We therefore would like IIROC to consider, ideally as a temporary administrative relief measure, or if necessary as a minor transitional rule relating to Rule 200.2(l)(x)(B), allowing the following:

- That IIROC Dealer Members, which already suppress institutional trade confirmations, be permitted to continue to do so for the third and fourth calendar quarters of 2017 (or corresponding quarters if the implementation date is changed) even should their institutional trades matched drop temporarily below the 90% threshold that must be matched by noon on T+1

- That IIROC Dealer Members, which are in the process of building three consecutive quarters of not needing to file Forms 24-101F, may exclude the results of the third and fourth quarters of 2017 from the calculation for suppressing written confirmations for clients.

This request is made on the assumption that the current T+3 level of compliance will be met by these Dealer Members immediately or soon after transition.

With respect to the first category above of Dealer Members, institutional investors in any event have the right to request that receipt of trade confirmations be re-instated at any time if they are concerned. We believe that Dealer Members having to re-start sending, then ask for a new signature to cease sending, and then stopping to send confirmations due to a brief transition-related drop below the 90%-matched-by-noon-on-T+1 threshold, is undesirable from a client service perspective and impractical from a Dealer Member standpoint. With respect to the second category of Dealer Members – those that are close to being able to suppress the confirmations – temporary relief will not reduce their efforts to comply with the 90% threshold, but could unnecessarily redirect resources better spent on higher-priority tasks to making a temporary fix.[ii]

Conclusion

The CCMA believes the Canadian marketplace move to T+2 is proceeding well. We do not believe that there is measurably greater or even any risk for investors or systemically from permitting the requested

relief. While IIROC is known to exhibit tolerance judiciously at times of systems implementations, we believe that confirmation in this instance will avoid the potential for misdirected resources and costs, with no measurable investor protection or capital markets efficiency benefit. We would be pleased to discuss options further with you and look forward to your continued involvement in T+2 transition efforts.

Yours sincerely,

[original signed by Keith Evans]

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[i] Rule 200.2(l)(x)(B) states: In delivery against payment (DAP) and receipt against payment (RAP) trade accounts, provided that:

(I) The trade is either subject to or matched in accordance with broker-to-broker or institutional trade matching requirements under the Corporation's Rules or securities legislation;

(II) The Dealer Member maintains an electronic audit trail of the trade under the Corporation's Rules or securities legislation;

(III) Prior to the trade, the client has agreed in writing to waive receipt of trade confirmations from the Dealer Member;

(IV) The client is either:

(a) another Dealer Member who is reporting or affirming trade details through an acceptable trade matching utility in accordance with section 800.49; or

(b) An Institutional Customer who is matching DAP/RAP account trades (either directly or through a custodian) in accordance with National Instrument 24-101- Institutional Trade Matching and Settlement;

(V) The Dealer Member and the client have real-time access to, and can download into their own system from the acceptable trade matching utility's or the matching service utility's system, trade details that are similar to the prescribed information under subsection 200.2(l); and

(VI) The Dealer Member has not filed a report as required under subsection 800.49(6) informing the Corporation that it has not met the quarterly compliant trade percentage or has not filed a trade matching exception report as required under securities legislation relevant to the trade, for a minimum of three consecutive quarters.

A client may terminate their trade confirmation waiver, referred to in sub-clause 200.2(l)(x)(B), by providing a written notice confirming this fact to the Dealer Member. The termination notice takes effect upon the Dealer Member's receipt of the notice."

[ii] **Note:** We raised a different transitional issue with the Canadian Securities Administrators (CSA) with respect to the T+2 NI 24-101 amendments relating to the expected September 5, 2017 effective date. This date or (should that date change) any other off-quarter-end implementation date for the NI 24-101 changes, for which an exception report might have to be prepared, would require work that we believe is of no value. We therefore have requested, in our response to the NI 24-101 rule comment request, that the CSA permit firms to implement exception reporting for NI 24-101 purposes for effect the first full quarter following the cutover to T+2.