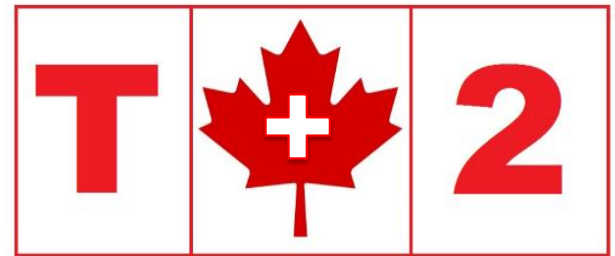




# Countdown to



**April 20, 2016**

# Agenda

- Intro to CCMA and T+2 project – Keith Evans, CCMA
- U.S. T2: All you need to know – John Abel, DTCC
- Panel discussion:
  - Custodian view – Domenic Sgambelluri, NT
  - Sell side/dealer perspective – Jason O’Born, RBCCM
  - Buy side (IM) considerations – Mark Austin, CCL
  - Mutual fund side – Russ White, Fundserv
- Questions

# CCMA – A history lesson

- Launched 1999; communicates, educates, helps co-ordinate cross-capital-markets projects
- Initial projects were:
  - T+1 → STP
  - NI 24-101
- ‘Moth-balled’ in 2008
- Small board (IIROC, CBA, CDS )
- Today’s priority: T+2

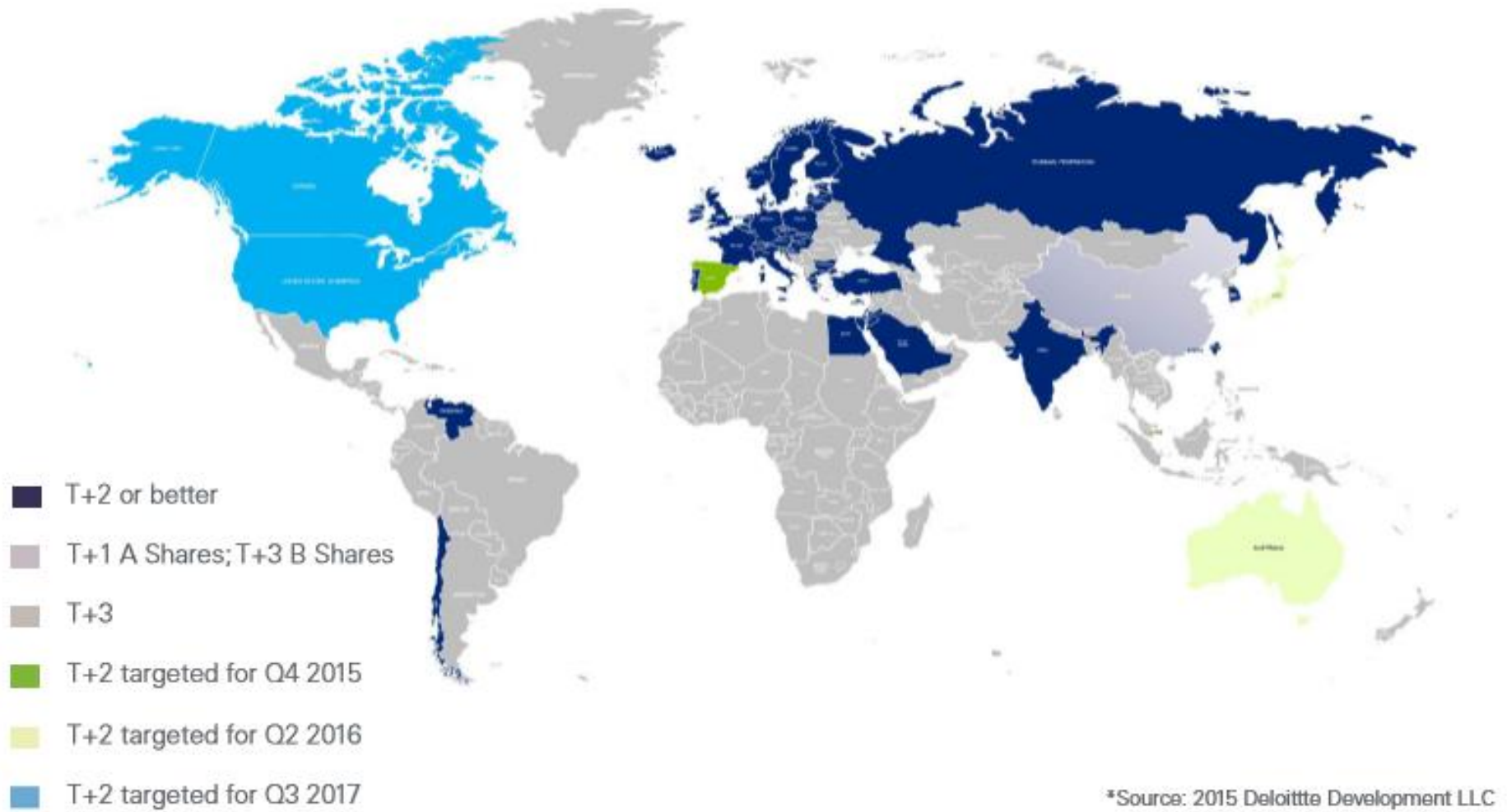
# What is T+2?

- Two days between date of trade and when it settles
- T+2: code word for transition to trade date + 2 days
- In scope:
  - Equities, debt, mutual funds settling T+3 today
- Out of scope:
  - Treasury bills
  - Money market
  - Short-term government bonds
  - New issues

# Why?

- U.S. announced transitioning to T+2 in Q3 2017
- Canada must transition at the same time
- CSA Staff Notice 24-312 endorsed:
  - Shortening settlement cycle in Canada to T+2
  - Re-activation of CCMA to co-ordinate T+2
- And around the world...

# Where?



# What are the benefits and costs?

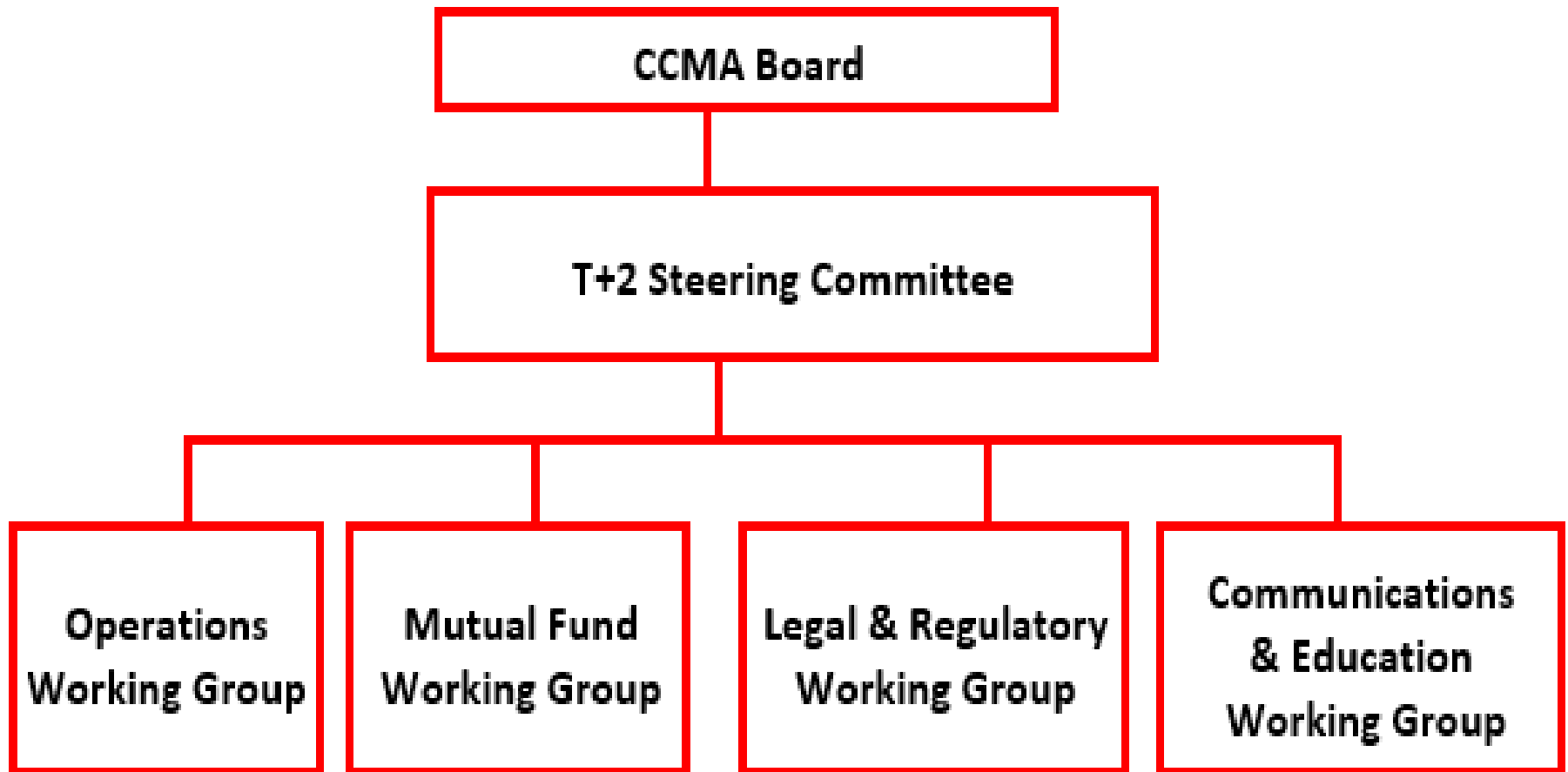
- Mitigation of counterparty risk
- Decrease in margin requirements
- Reduction in margin and liquidity demands especially during periods of market volatility
- Increase in global settlement harmonization
- More efficient, safer, better service for investors

# Who's involved?

- Buy side: mutual fund manufacturers and other asset managers
- Sell side: mutual fund and securities dealers
- Custodians
- Infrastructure: CDS, Fundserv, exchanges
- Service providers, vendors
- Associations
- Regulators



# How?



# When?

U.S.	Canada
<b>Apr. 2014:</b> All major U.S. industry organizations commit to move to T+2	<b>Note:</b> 1999 Charles River study says Canada must move with U.S.
<b>June 2015:</b> Updated U.S. T+2 white paper	<b>July 2015:</b> CCMA “re-activated” <b>Sept. 2015:</b> CDS white paper on T+2
<b>Dec. 2015:</b> Industry proposal to SEC	<b>Dec. 2015:</b> CCMA staffed; milestones ready <b>Dec. 2016:</b> Fundserv T+2 plan issued
<b>Q1 2016:</b> DTCC test plans, functional specs	<b>July 2016:</b> Industry test plans published
<b>Dec. 2016:</b> Builds completed	<b>Dec. 2016:</b> Builds completed
<b>Q2-3 2017:</b> Industry testing	<b>Q2-3 2017:</b> Industry testing
<b>Sept. 5, 2017:</b> Expected implementation	

## Shortening the Settlement Cycle: The Move to T+2

# Background

- Industry Engagement
  - Industry Steering Committee
  - Industry Working Group
  - Industry Sub-Working Groups
- Industry T+2 Requirements document published June 2015
  - Including target implementation date of Q3 2017
    - A specific date of September 5, 2017 has since been selected
- Letter to SEC submitted June 2015
- Letter from SEC Chair White received September 2015
  - Supporting industries effort to move to T+2
  - Requesting other impacted regulators and SROs *“develop detailed schedules to consider the necessary rules amendments”* and the *“SROs finalize these schedules by October 31, 2015”*
  - Requesting the Industry Steering Committee develop a *“detailed implementation schedule including interim milestones and dependencies by December 18”*

# Key Work Streams



- The Industry is focused on three key work streams:
  1. Legal and Regulatory Engagement
  2. Development and Internal Testing
  3. Industry Testing and Implementation

# Legal and Regulatory Engagement

- Regulatory certainty is key to the industry moving forward with T+2
  - Letter from SEC Chair White provided industry with a certain amount of regulatory certainty
- Timeline proposed by the Industry Steering Committee:

Implementation Activity	2016				2017			
	Q1	Q2	Q3	Q4	Q1	Q1	Q2	Q3
SROs and Regulators notification of proposed rule changes	■							
Comment period on proposed rule changes	■							
Submission of proposed rules to the SEC for comment and approval	■							
Release of final SRO and Regulator rules	■							

- Regulators and SROs are at various stages of completion
  - MSRB published final rule changes
  - FINDA Published proposed rule changes
- Industry Steering Committee meets regularly with regulators and SROs to:
  - Provide regulators a status of the T+2 project
  - Monitor progress of the regulators and SROs

# Development and Internal Testing

- Specific request contained in the SEC letter
- Industry Steering Committee engaged Deloitte to help produce the industry implementation plan
  - Deloitte assembled a group of industry professionals across all impacted market segments
  - Conducted a number of industry workshops
- The end result was the T+2 Industry Implementation Playbook published December, 2015
- T+2 Industry Implementation Playbook serves two key functions:
  1. Satisfy the request contained in the SEC letter
    - Timelines, Milestones and Dependencies
  2. Help the the industry with their development efforts
    - Playbook which is a tool for members to help prepare internally for move to T+2
- Continues industry outreach

# Development and Internal Testing - DTCC

- DTCC, as a market participant, has its own changes to made to support the move to T+2
- DTCC development includes changes at:
  - Omgeo
  - NSCC
  - DTC
- Business requirements defined
  - External facing requirements document published in March 2016
- Functional design complete
- Technical design underway
- On-track to have build complete and ready for industry testing 1Q/2017
- What is the status of your firm?



# Industry Testing and Implementation

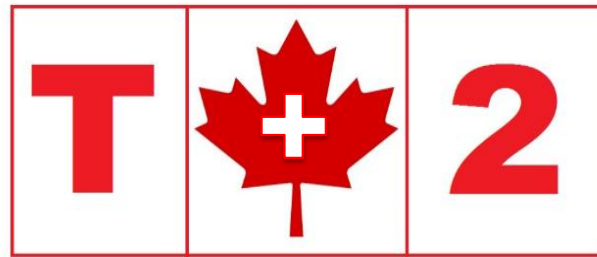
- Critical to successful implementation of T+2
  - Assembled industry T+2 Testing group
    - Testing group identified three levels of T+2 testing:
      1. Internal User Acceptance Testing (UAT)
      2. Testing with customers and stakeholder (including Service Providers)
      3. Testing with industry infrastructures
- } Outside the scope of industry test
- DTCC is a key provider of the industry infrastructure
  - The end result of the T+2 testing group meetings was the production of a high-level test approach document
    - The test approach document was released in February, 2016
      - Test structure
      - Testing time frames
      - Test environment – Including new DTCC test environment
  - DTCC to produce a more detailed test document in June, 2016

# Next Steps

## Industry:

- Continue to engage with Regulators to advance rule changes
- Continue industry outreach / education
- DTCC published detailed Requirements Document outlining all changes (March 2016)
- DTCC to publish detailed Test Plan Document (June 2016)
- Industry to publish detailed implementation documents (TBD)
  
- Prepare to move to T+2 on September 5, 2017

# Panel Discussion



# What, me worry?

- Number of trades entered and matched

Values	Entered T	Noon T+1	T+1 EOD	Match T	Noon T+1	T+1 EOD
June '07	52%	76%	84%	23%	55%	69%
Feb. '15	90%	92%	94%	53%	83%	87%
<i>Improve-ment</i>	<i>73%</i>	<i>21%</i>	<i>12%</i>	<i>130%</i>	<i>51%</i>	<i>26%</i>
Dec. '15	81%	95%	97%	54%	90%	94%
<i>Improve-ment</i>	<i>-10%</i>	<i>3%</i>	<i>3%</i>	<i>2%</i>	<i>8%</i>	<i>8%</i>

# What, me worry?

- Utilities, service providers, vendors say no issues
- But about 100 issues have been identified
- Three primary issues
  - NI 24-101
  - Testing
  - Readiness

# Custodian point of view

- **Getting the word out**
  - Informing clients about T+2
  - Working with the buy side to identify any processing flaws

# Custodian point of view

- **Eliminate redundancy/increase efficiency**
  - Find efficient ways to support T+2
  - Securities processing
  - NI 24-101

# Custodian point of view

- **Alignment with other markets**
  - Global clients
  - How do other services impact T+2?



# Sell side (dealer) perspective

- Trade reconciliations – reduced timelines
- Holiday processing
- International client allocations/communications

# Buy side T+2 considerations

- What are the benefits of T+2 to the buy side?



**Definitely**

Market Harmonization



**Possibly**

Cost Reduction



**Wait and See**

Counterparty Risk

# Buy side T+2 considerations

- What should the buy side be thinking about?

Portfolio Management	Operations	Communication / Policy	Regulatory / Legal
<ul style="list-style-type: none"><li>• Cash flow</li><li>• Cross currency</li><li>• FX</li><li>• Accrued interest</li></ul>	<ul style="list-style-type: none"><li>• Trade matching and confirmation</li><li>• Settlement</li><li>• FX</li><li>• Corporate actions</li><li>• Dividends</li><li>• Cash flow</li><li>• Accrued interest (valuations)</li><li>• Vendors</li></ul>	<ul style="list-style-type: none"><li>• Pooled fund sub/red cycle</li><li>• Cash flow</li><li>• Retail funding</li><li>• Private clients</li><li>• Documentation</li></ul>	<ul style="list-style-type: none"><li>• Rule Changes</li><li>• NI 24-101</li><li>• Prospectus</li><li>• Agreements</li><li>• Penalties</li></ul>

# Buy side T+2 considerations

- **What should your strategy include?**
  - Learn lessons from Europe, Australia / NZ
  - Senior management engagement
  - Corporate project status
  - Industry involvement
  - Leverage U.S./Canada playbook
  
- **Retire before T+1**

# Mutual fund perspective

- Current calculation of settlement date
- Minor impact on Standards
- Approach to testing
- Identifying which funds are changing?

# Mutual fund perspective

- Impact on fund companies
- Impact on dealers
- Summary of timelines

# Where to start?

- Market participants should:
  - Review downstream and upstream processes, reports, files and databases
  - Make necessary changes to investment fund prospectuses or other agreements
  - Get confirmation that suppliers and other key stakeholders are ready
  - Make necessary changes to trading, portfolio valuation and other systems and test
  - Stay on top of industry T+2 efforts

# You are not alone – help is here

- Frequently Asked Questions – we'll add more
- Newsletter – sign up if not a committee member
- T+2 Readiness Self-Assessment Checklist
- T+3 Asset List – review and send comments
- [www.ccma-acmc.ca](http://www.ccma-acmc.ca)
- [www.ust2.com](http://www.ust2.com)



# Questions?