

November 11, 2016

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Dear Sirs and Madams:

**Re: Proposed Amendments to National Instrument 24-101 and CSA Consultation Paper 24-402**

The Investment Industry Association of Canada (“IIAC” or “Association”) appreciates the attention the CSA is devoting to the industry’s targeted move to a shortened settlement cycle. We welcome, therefore, this opportunity to comment on CSA proposed amendments to NI 24-101 *Institutional Trade Matching and Settlement* and CSA Consultation Paper 24-402 *Policy Considerations for Enhancing Settlement Discipline in a T+2 Settlement Cycle Environment* (collectively the “Papers”).

**Proposed Amendments to NI 24-101: Non-North America Trades**

The CSA proposes to repeal the provisions that extend the ITM deadline to noon on T+2 for non-North American trades. We concur that the existing provision warrants consideration in a standard T+2 settlement environment. In a shortened settlement cycle the extended deadline for these trades could pose some challenges for our members to resolve any issues on a timely basis in order to avoiding failing that trade. However, despite the complexities with foreign investments and cross border transactions, our members’ experience is that non-North American trades today are generally matched and settled very efficiently. While some market participants may have to consider process improvements to match on T+1, we do not expect any material long-term disruptions with the CSA’s proposal. The condensed timeline will also be supported as additional foreign jurisdictions move to T+2.

### **Proposed Amendments to NI 24-101: Application to Exchange Traded Funds (ETF)**

The CSA proposes that secondary-market trades in an ETF that settles on a DAP/RAP basis through the facility of CDS be subject to the trade matching requirements of NI 24-101.

A significant market development since NI 24-101 came into force in 2007 has been the prolific growth of the ETF market in Canada. Despite the increased volume of ETF issuers and transactions, our members indicate that it has not posed a significant challenge in their ability to match these trades on a timely basis. Our members also noted that exchange-traded mutual funds (ETFs) are already included in the matching data CDS publishes.

We do not, therefore, have any significant concerns with respect to the CSA proposal.

### **Proposed Amendments to NI 24-101: MSU systems and business continuity planning requirements**

The CSA proposes to update the provisions within NI 24-101 governing the systems and business continuity planning of Matching Service Utilities (MSUs). We appreciate that the proposals are intended to reflect the important role of MSUs in the clearing and settlement of securities transactions. It is important, however, to ensure that any new obligations are not viewed as overly onerous by MSU's as this could jeopardize the continuity of their service to Canadian market participants. We suggest that the CSA have bilateral discussions with various MSU's to ensure that the CSA proposal contain the appropriate balance.

### **Policy Considerations for Enhancing Settlement Discipline in a T+2 Settlement Cycle Environment**

CSA Consultation Paper 24-402 Policy Considerations for Enhancing Settlement in a T+2 Settlement Cycle Environment seeks to understand whether current regulatory and other mechanisms are adequate to promote timely trade settlement in a T+2 settlement environment. It also seeks views on additional discipline measures such as modifications to the current ITM requirements.

Below are our responses to some of the questions posed in the Consultation Paper:

**Question 1:** *In your opinion, is the existing settlement discipline regime adequate to promote timely settlement and support market efficiency in a T+2 settlement cycle environment?*

In addition to NI 24-101 the existing settlement regime in Canada includes various rules of IIROC, Clearing Agencies and the Exchanges. In our members' view, the existing regime, supported by our members learning and process improvements since 2007, has resulted in Canadian industry already largely capable of meeting a T+2 settlement cycle. This view is further evidenced by the trade matching statistics included in the Consultation Paper which shows that the percentage of CDS trades (combined equity and debt) that are matched by noon on T+1 has increased from approximately 60% in 2007 to 90% as at end of 2015. The data additionally shows that over half of all trades are currently matched by noon on T.

**Question 2:** *Is increasing Same day affirmation (SDA) rates in the Canadian markets an important pre-condition to transitioning to T+2?*

**Question 3:** *Is a higher degree of automation in the trade confirmation-affirmation processes the key to delivering higher SDA rates?*

The IIAC acknowledges the benefits to increased rates of SDA, most notably allowing more time to complete trade allocations and address errors. We share the CSA's view that higher SDA rates result in increased settlement efficiency, allowing those firms to better meet the shortened settlement cycle. However, we do not believe it is a pre-condition to Canada's transition to T+2. As previously stated, we believe the Canadian industry is already well placed to meet the increased operational demands stemming from a shortened settlement cycle. Members indicate that their individual rates of SDA have been steadily increasing and already quite high relative to participants in other jurisdictions. Therefore, while higher SDA rates is something that Canadian industry should strive for, it should not be a pre-condition to Canada's move to T+2.

Our members fully support a higher degree of automation in the trade confirmation-affirmation processes. In this respect, our members have gone to great lengths over the past several years to eliminate, to the extent possible, any manual processes within their firms. The biggest challenge they have stated is getting some of their trading partners to embrace the same level of automation. Additional client engagement will be required in this regard as we transition to T+2.

**Question 5:** *Should the ITM deadline be moved to midnight on T?*

**Question 6:** *Should the ITM threshold be amended to 95% (instead of current 90%)?*

Our members' view is that in a T+2 environment industry trade matching behavior/performance will likely change little from what is being witnessed currently. Furthermore, the current ITM parameters, in our view, are still well suited for a T+2 settlement environment. Changes to the ITM deadline or threshold could unnecessarily divert our members' attention and resources from their many other daily responsibilities. Our members, therefore, do not support, at this time, moving away from the current ITM deadline (noon on T+1) and existing 90% threshold.

**Question 7:** *Are there other pre-settlement measures that could be taken to encourage prompt confirmation and affirmation of a trade and communication of allocations and settlement instructions by trade matching parties?*

Our members indicate that they still have some (smaller sized) buy side clients which still send client trade instructions via fax. This delays our members' ability to confirm/affirm trades or process allocation/settlement instructions and increases the likelihood of errors or omissions. We encourage all parties to be utilizing electronic communication to report trade details ie. SWIFT, Bloomberg, proprietary systems, etc.

**Question 8:** *Should NI 24-101's current principles-based settlement rule be amended to incorporate a prescriptive T+2 rule?*

In our Members' experience it is common to enter into trades that require special handling including transactions with non-standard settlement. IIAC Members are concerned that prescriptive T+2 rules could be problematic for these type of transactions. The current principles-based settlement rule has demonstrated its effectiveness in influencing industry behavior and should be carried forward as we transition to T+2 settlement.

**Question 9:** *Is the current settlement discipline regime in Canada sufficient to resolve settlement failures expeditiously or are other mechanisms needed?*

The CSA Consultation Paper seeks comment on whether Canada should consider additional mechanisms such as fail-charges or forced buy-ins to resolve settlement failures. The daily CNS fail rates illustrated in Chart A-1 of the Consultation Paper demonstrates that settlement fails are not symptomatic of the Canadian marketplace. In those infrequent instances of failed settlement, the exchanges or depository already have measures in place for addressing the fail. Furthermore, for trades outside of CNS such as bi-laterally executed over-the-counter transactions, the standard legal agreements such as GMRAs, ISDAs, GMSLA sufficiently outline remedial measures for when a party fails to deliver collateral.

We do not believe, therefore, that any additional discipline measures are necessary at this time.

**Question 10:** *Are there other aspects of the securities transaction processing chain that may be a source of delay in meeting a T+2 settlement timeline?*

Our members indicate that a source of delay currently relates to the various reporting of trade details from the stock exchange(s) or CDS. Some of this reporting is received by members at end of day or as part of an overnight batch process. This slows down the dealers' ability to identify any trade issues in need of remediation and working with counterparties to get them resolved. The industry would benefit from more real-time reporting, such as intraday files, from the exchanges or CDS.

Lastly, we would like to bring to your attention a potential issue raised by some of our Member firms. Given that the targeted T+2 transition date (Sept 5, 2017) falls within Q3 of 2017, there is potential for trade matching and the exception reporting for that period to be skewed as firms make the transition to T+2. We believe it reasonable for the CSA to provide for some temporary relief from the trade matching requirements during Q3 2017.

Sincerely,



Jack Rando, CFA  
Managing Director