

## Client-Communication-Related Frequently Asked Questions (FAQs)

*Note: The following are a combination of past (sometimes slightly edited) and new Q&As that may be useful, for member firm communication areas, in finalizing communications plans.*

### **What is the best form and timing of customer T+2 communications for institutional clients? Retail ones?**

The content, delivery channel and timing for effective T+2 communications with clients will depend on each firm's business model and customer profile. Firms should recognize that their clients have less time than ever to keep up with what they need to know. One institutional firm has decided to contact a representative of each firm directly since written client notification with quarterly report packages did not lead to preparations for behavioural changes to manage cash for payment a day earlier. A firm with retail clients likely also will determine that a broad approach is needed and use online account prompts/messages, text on statements (both with ways to obtain more information online and through advisors or via a call centre), in-branch (if applicable), signs/flyers and training material prepared for advisors (who may best know which clients are likely to be affected), the call centre and website. To the extent that clients only get quarterly packages/statements, firms will have to identify alternative means of reaching clients.

### **Are there examples of retail communications?**

The UST2 website provides an example of a one-pager on how to explain the impact of T+2 on investors at <http://www.ust2.com/news/explaining-t2/> and early CCMA FAQs provide additional information that may be useful to communications. To the extent that firms want to further simplify their message, the following wording may be used as the basis for communications to Canadian investors:

#### **IMPORTANT CHANGES WHEN YOU BUY OR SELL SECURITIES**

On and after September 5, 2017, when you buy stocks, bonds, or mutual funds, you will have to pay for the securities a day earlier than now. Similarly, if you sell these securities, you will receive payment a day sooner.

At present, the actual exchange of most securities for cash takes place three business days after the date of your trade due to the many steps in the process. Canada and the U.S. will shorten this period from the current three days after trade date to two days, just as European and other countries already have done. This will reduce risks and improve efficiency – good news for everyone.

If you have money, or securities you want to sell, in your account on the date you buy securities, a two-day timetable to pay for the securities will not be a problem. But if you still deliver a cheque for payment, or must bring in a securities certificate to sell to pay for the purchase, you will likely need to make new arrangements. If you have questions about how you may be affected, talk to your advisor, call 1-800-**<xxx-xxxx>** or visit **<insert company website>**.

### **FAQs for use with clients**

#### **What is T+2?**

T+2 (and T+0, T+1, and T+3) refer(s) to the number of days (as in a two-day gap) between trade execution (or T) and the related trade settlement (defined as the exchange of the buyer's payment for the trade to - or purchase from - the seller in conjunction with the transfer of these securities from the seller to the buyer).

#### **What securities will be affected by the shortened cycle?**

In general, the main securities that will be impacted are: all stocks/equities, all corporate bonds, and long-term government bonds (those with a remaining term to maturity of more than three years) as well as investment funds, including conventional mutual funds and exchange-traded funds or ETFs. A list of

the security types that are affected can be found here <insert list of firm's security types moving to T+2>.

**Are there any exceptions to moving to a two-day settlement cycle? If so, how will I know whether there are two or three days to pay for my mutual funds?**

Yes, there may be exceptions, and your financial advisor or dealer information can tell you what they are. Exceptions will include some mutual funds not domiciled in Canada and some of the alternative funds not currently settling on a T+3 basis.

**How does a move to T+2 affect me as an investor?**

In the case of clients of securities dealers (dealers regulated by the Investment Industry Regulatory Organization of Canada or IIROC), it is expected that there will be no or few expected impacts on retail clients because often clients have cash or securities that can be sold to finance a purchase or may have made arrangements to borrow on margin. One exception, which would not be a problem for investors who can borrow on margin, would be in the case of physical certificates that clients may hold in their own name. The de-registration process may not be able to be accommodated in the shorter timeframe, in which case investors will need to bring the certificates to the firm according to the firm's specified timeframes before processing.

Clients that are not selling securities already in their accounts, or who don't have a margin account or enough cash on hand, will have to deposit cash or a cheque in sufficient time to cover the transaction. Speak to your financial advisor or relationship manager for more details about the specific effect of the changes.

In the case of mutual fund dealers (dealers regulated by the Mutual Fund Dealers Association or MFDA), advisors may in future (if not currently) not place trades until a cheque is received, unless a purchase is financed by the redemption of funds on the same or a shorter settlement cycle. Investors should check with their advisor or look for information provided by their dealer online or on via website.

**How does this affect me as a foreign investor in widely different time zones?**

You will likely already be subject to the new timelines if you are investing in Europe, and so have experience in aligning payments and securities on different cycles. If not, speak to your dealer(s) or custodian(s) to learn about the effect of any changes they will be implementing.

**Why aren't securities purchases and sales processed on the same day as deposits and withdrawals are?**

The automation of both cash and securities markets advanced considerably during the 1980s, 1990s, and first decade of this century. However, the transfer of cash still remains much more straightforward than is the case with securities. A cash transfer requires agreement on, and transfer of, usually relatively small amounts on a particular date. In the case of securities, there are many more details to agree upon. For example, investment managers have 18 mandatory data elements per transaction to send to the broker-dealer and custodian, if allocating at the individual client level – and the amounts at risk can be considerably greater. Also, some investments involve offshore structures, where the offshore part will take longer to transact or involve illiquid securities where it may take extra days to sell an asset at a reasonable price.

**FAQs to help firms**

**What will happen if any Canadian or U.S. firm is not able to move to T+2 at the same time as the U.S.?**

Every effort has been made to ensure all firms are prepared to successfully move to T+2 on September 5, 2017. As the Canadian industry must move to a T+2 settlement cycle on the same day as the U.S., firms should do everything possible to meet the September 5, 2017 deadline.

**Why do the settlement cycles in the U.S. and Canada need to be the same?**

While for most people it will be common sense to have the same process in Canada and the U.S. to minimize extra work and errors, the CCMA commissioned an analytical study, completed in 1999 by Charles River Associates, that concluded the Canadian capital markets should change the settlement cycle at the same time as the U.S. – neither before, nor after. This is because about 40% of trades on Canadian stock exchanges are in inter-listed securities (that is, a single security listed on both Canadian and American exchanges) and Canada-U.S. cross-border transactions make up nearly 25% of the millions of trades processed annually through the Canadian Depository for Securities Limited (CDS). Different settlement dates would cause confusion for investors and increase the risk of errors with the associated cost of manual corrections.

**What specific securities will be affected by the shortened cycle?**

There is a list of [security types](#), however, not of individual securities. As a rule of thumb, if a security is currently settling on T+3, it will move to a T+2 settlement cycle. For anything more specific, contact your back-office department.

**Doesn't moving to distributed ledger technology (DLT), also known as blockchain technology, make T+2 and even T+1 obsolete?**

New technologies can always improve speed and accuracy, however, there is an extremely high level of interconnectedness in the investment industry, and any substantive change will need the careful coordination between multiple players. Regulators will have to review and approve any change, after ascertaining that the changes would not lead to increased risk. At present, one important step in securities processing is the need to convert foreign currency, which currently settles on a two-day basis, so foreign exchange considerations need to be changed also