Views/Considerations re: How Mutual Fund Settlement Dates May Be Communicated/Disclosed through the Processing Chain

Purpose: To summarize discussions of operational and communications considerations related to conventional mutual funds as decisions are being made by dealers in preparation for moving the standard settlement cycle of equities, debt, and certain other securities to T+1.

Note: As decisions are still being made by many in the broader investment industry, views on the operational and communication matters described here are subject to change and an updated or replacement document may follow. No matters covered are intended to suggest the need for regulatory change, nor should this be construed as guidance.

Issue: Canadian Securities Administrators (CSA) Staff are of the view (Staff Notice 81-335, December 15, 2022) that "where practicable, mutual funds should settle primary distributions [sales] and redemptions of their securities on T+1 voluntarily." Some funds will move to the next-day settlement cycle mandated for debt, equity, and exchange-traded funds (ETFs) in secondary markets as of May 27, 2024, and some will not. The practical matter is that it is unclear how advisors, who have a know-your-product (KYP) obligation, and investors/clients (particularly self-serve/do-it-yourself (DIY) ones) will know if a particular mutual fund will continue to be bought and redeemed on a T+2 basis, as currently, or for T+1 payment. An ancillary issue is that while it is expected that most funds being moved to T+1 will do so for effect May 27, 2024, over time additional funds may move from a T+2 to a T+1 settlement cycle, leading to a need for ongoing, possibly more granular, communication to advisors/clients than today.

Status: How to communicate to advisors and retail investors/clients that some T+2 funds will *not* move to T+1, while other segments of the market *will* move to T+1, is still being worked out. As well, because the move to T+1 is optional for fund managers, individual firms may take different approaches to deciding which funds will move/not move to T+1, how to communicate this, and when.

Background: There are mutual funds (and other securities) that do not settle on today's standard T+2 cycle now (while currently 90% of products processed through Fundserv settle on T+2, 8% settle on T+1 and 2% on a T+3 or longer basis). These are proportionally few because, at present, the mandated standard securities settlement cycle in Canada is T+2 for *all* securities, including mutual funds, except the very small percentage that settle on a 'special-terms' basis, i.e., on other than the standard cycle or have exemptive relief. The very large majority of funds, as well as debt and equity securities, have all settled on the same cycle for decades, so clients have been able to sell an ETF, stock, or bond, and buy a mutual fund – or vice versa — the same number of days after a transaction without problems. This is changing as of May 27, 2024. Starting on that day, dealers, advisors, and their clients will have to navigate a situation that, while occurring today, happens rarely enough as to be manageable. Depending on the proportion of funds staying at T+2 as compared to those moving to T+1, this may become, in the views of some, very challenging.

There are four scenarios to consider. Three of these – the client buys and sells, or sells and buys, funds and/or securities settling on the same cycle or the client buys a T+2 fund using the proceeds of a T+1-settling security – essentially no different from today's environment and presenting no concerns. The fourth scenario, that of a client wanting to buy a fund or other security by selling a fund settling on a longer cycle also occurs currently but is proportionally rare as the "standard" settlement cycle is the same for most funds and the vast majority of other product types. It is this case that leads to the discussions here.

There are a number of implications of this one-day settlement mismatch for clients, advisors, fund managers, dealers, and their service providers (most present today, however, not in the volumes that may occur in future depending on the extent of T+2 vs. T+1 funds). They include the following, in no particular order:

1. The mismatch in the case of a client who wants to sell a T+2-settling mutual fund in Canada to buy an ETF, stock, bond or T+1-settling mutual fund, and having to pay for their purchase on the next business day (T+1), while proceeds of the mutual fund they are redeeming may only be received the day after (T+2), means that the client will have to:
   - hold more in lower-earning money-market funds that settle on T+1;
   - have extra non-earning cash on hand;
   - delay the purchase until the next business day and so face market exposure; or
   - borrow short term and so incur a financing cost.
2. It is unclear whether fund companies will shift the settlement-cycle verification burden onto the advisor, with the thought that the fund industry may not provide a simple straight-through solution, leaving dealers (sellside/distributors) and advisors to determine what is manageable.
3. Advisors recommending a T+2-settling fund will have to be able to manage/monitor the money coming in.
4. It is likely that a settlement cycle that differs from the standard market cycle, and so could lead to delays or costs for a client later wanting to redeem a fund to buy an ETF, stock, or bond instead, would be considered a material fact that must be disclosed to clients at or before point of sale as part of the KYP obligation.
5. Sellside firms/advisors will have to consider how to inform clients which funds they already hold will settle on T+1, which will settle on T+2, and the related implications.
6. Some industry participants say that the first time a client is inadvertently charged for a one-day overdraft that they didn't expect, because the purchase settles on T+1 and the fund redemption occurs on T+2, could contribute to the end of that business relationship unless the advisor/dealer chooses to absorb the cost.
7. A number of dealers may choose to manage the cash for the one-day settlement mismatch for clients (and advisors) because the cost could be relatively small. Even during the 2008-2009 market turmoil, international funds only experienced 2%-3% net redemptions on a weekly basis and correspondingly less daily. With the possible exception of funds with a concentrated number of unit holders, presenting a more challenging cash management environment, the funding cost risk therefore could be seen as smaller for at least larger firms. A number of larger firms are prepared to accept these charges as a cost of doing business – if the cost can be offset by savings from operational efficiencies.
8. Advisors may face a choice between entering a few keystrokes in a system to complete a T+1-settling security transaction or undertaking a process requiring more steps for continued T+2-settling funds (e.g., obtain an additional signature that clients are aware of later proceeds availability at redemption, manage/monitor for cash received, etc.).
9. Some industry experts believe that the above factors combined may pressure clients to ask for — and dealers and advisors to focus predominantly on — T+1-settling funds, whatever other funds are on the dealer's shelf.
10. An education effort will be needed for dealers, advisors, and clients.

What are the options to communicate to advisors which funds will remain on a T+2 or longer cycle?
While the outcome will be market-driven, the following solutions have been, or are being, considered (to a greater or lesser extent) as options for enabling advisors and retail investors (DIY clients in particular) to find out if a mutual fund will continue to settle on T+2 or move to T+1 settlement as of May 27, 2024.

Note: Text in bold in the right-hand column indicates what are believed to be current general industry views on the acceptability or likelihood of uptake of the various options. Options are numbered for convenience of reference only, and have been grouped as Fundserv-related, fund-manager-related, sellside-related, and third-party options. Also, as *all* options would require an education effort, this fact is not repeated under each option below.

Possible Option	Possible Pros	Possible Cons
1. **Fundserv's** website self-serve option (see attached) could be broadly publicized: individuals and advisors directly access Fundserv's existing detailed list of funds and settlement dates	Already possible; free; could work for DIY clients	Not intuitive, quick, or easy for advisors or clients; **not a popular solution and one that would be more problematic during the transition period**
2. **Fundserv** could extract a list of just the fund name, ID, and settlement date from its database and make the information more easily findable	Likely relatively straightforward, cost-effective, and achievable by May 27, 2024	Unlikely to address client/advisor need for speed and Compliance desire for accuracy/ certainty; **possibility but unlikely**
3. **Fundserv/fund managers** could discuss adding a short code (say T2) to fund code numbers/names of funds remaining on T+2	Easier for advisors and self-serve clients	Would require industry agreement and training; development for adding digits to existing codes not scoped; there are competing high-priority regulatory projects at Fundserv, firms, and service providers; **possibility but considered very unlikely**
4. **Fund managers** could include the settlement date in their fund prospectuses or simplified prospectuses filed with and available on SEDAR or on request	None identified	Not practicable as the prospectus is rarely read; having to make changes to thousands of prospectuses could cause unnecessary client confusion and cost; **ruled out essentially**
5. **Fund managers** could add the settlement date to the Fund Facts document sent to clients before a purchase	Self-serve or sending Fund Facts electronically is already in place; easier for client and advisor to check settlement pre-sale; visual reminder to advisor when sending Fund Facts out to clients	Fund Facts layout is prescribed and to change this would take time; effort to change rules and update Fund Facts would be impractical; **ruled out essentially**
6. **Fund managers** may post individual funds' settlement information on each's publicly accessible website maintained for the posting of regulatory disclosures	May be manageable for fund managers; may be easier for some individual investors than other options	Does not address advisor need for speed and Compliance desire for accuracy/certainty; **could be adopted by some firms; unlikely to be seen as a systemwide solution**
7. **Sellside firms** develop an internal solution; a number of dealers may look	May be relatively little development for dealers	May not address DIY client needs; cost may not be

Possible Option	Possible Pros	Possible Cons
to find a way to give some clarity and visibility to those 3%-5% of more tech/operations-savvy advisors that have clients who are more interested in exotic, and so longer-settling, funds)	already using the Fund List file FD/FC to update their security master with changed settlement cycles for applicable funds	justified by usage; **may be adopted by some firms**
8. **Sellside firms** may decide to generally limit dealing to T+1 funds	Firm-by-firm decision; no/minimal systems changes needed	Question whether this is consistent with client needs; how to manage clients who currently hold T+2 funds (grandfather/run down book); **likelihood unknown**
9. **Third party** could extract a list of just the fund name, ID, and settlement date from the Fundserv database and make it available publicly (a variation of #2 above)	Likely relatively straightforward, cost-effective, and achievable by May 27, 2024	Could address DIY client needs if there is free public access; if not, would not address DIY client needs; may not serve advisor need for speed and Compliance desire for accuracy/certainty; **possibility, but has not had pick-up to date**
10. **Other?** There are further options being discussed that may be added later		

When will we know which funds will move to T+1, and which won't?

- This is not known. Fundserv plans to survey manufacturers in early 2024 to get a general sense of how many/which funds are expected to move to T+1 on May 27, 2024 at the same time as debt, equities, and ETFs in secondary markets. As well, in the week leading up to the May 27, 2024 implementation date, Fundserv will be updating a spreadsheet daily on the Fundserv member site that indicates which funds are transitioning to T+1 based on actual changes submitted by manufacturers via Fund Setup (FD) files (Fundserv members can visit the Fundserv Standards T+1 Transition and Testing page for more information).
- Another possibility is for firms to announce their decisions. Three firms have now made their intentions known. **National Bank Investments** has shared that 100% of its funds will move to T+1 on May 27, 2024. This encouraged a number of other firms to ask their fund manager clients about their decisions. **Desjardins Trust** has now announced that three of the four funds it manages will move to T+1; one, with significant European and other T+2-or-longer-settling underlying investments, will not. **AGF Investments** has confirmed its goal of moving all its funds to T+1 as of May 27, 2024.
- A **mutual fund transfer agent service provider** has set a deadline of April 1 for its clients to advise which of their funds will move to T+1 in production if they wish to be sure of making the May 27 deadline.

What's next?

Fund managers may declare a move to a T+1 settlement cycle at any time, and over a period of time. There will be a need for further and ongoing communication on this issue. More information will follow as known.

Attachment

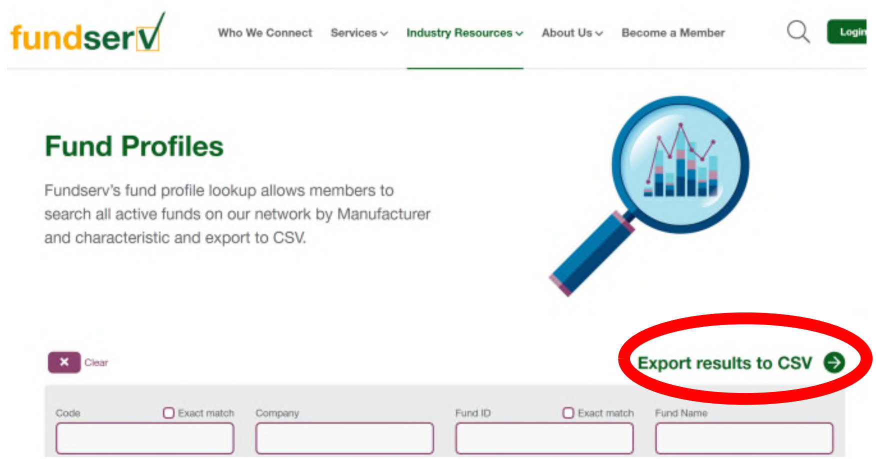
Finding and Using the Fundserv Database to Identify Settlement Period

Once familiar with the Fundserv application, it is straightforward to use. Currently, how to find and use it appears not to be well-known.

Some changes to the presentation might make it easier to use, such as adding a prominent note on the landing page about how to search and moving the sliding scroll bar from the bottom of the list of funds identified in a search to the top to make it more evident that users must scroll right.

Instructions:

1. Visit Fundserv's Fund Profiles (https://www.fundserv.com/industry-resources/fund-profiles/). Depending on the size and layout of your screen, you should see something like the image to the right.



2. Select any of the search features you see as boxes, which include Settlement Cycle. You can also search on multiple other factors at the same time[1] (see next page).

3. Some may find it easier to use if they export from the Fund Profiles to CSV (enter contact details when prompted, and purpose of use (Other, settlement cycle); saving results as an Excel file, then search for/scroll right to Settlement Date (Column K – T+1, T+2, T+3, Custom), and sort as desired.

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1. You can select any of the other search features, for example, Fund Company, Fund ID, or Product Type (the latter includes flow-through share, guaranteed investment certificate (GIC), hedge fund, labour-sponsored investment fund (LSIF), liquid alternative mutual fund, mortgage-backed security (MBS), mortgage fund/mortgage investment corporation (MIC), mutual fund, non-principal-protected note, pooled fund, principal-protected note (PPN), private fund (includes private credit, private equity, etc.), real estate fund/real estate investment trust (REIT), segregated fund, structured note, venture capital fund, wrap product, other.

Fund Profiles

Fundserv's fund profile lookup allows members to search all active funds on our network by Manufacturer and characteristic and export to CSV.

Clear

Export results to CSV

Code ☐ Exact match

Company

Fund ID ☐ Exact match

Fund Name

Currency

Load

Product Type

OEO Eligible

CDIC Flag

Member Institution

Settlement

Cut Off Time

Classification

Money Market Flag

Commission

PAC/SWP

Distribution

OEO Equivalent Fund ID ☐ Exact match

Showing 1 to 10 of 108,066 results

Results per page: 10 25 50 100

Code	Company	Fund ID	Fund Name	Currency	Load	Product Type	OEO Eligible	C
AAM	AlphaNorth Asset Management	100	ALPHANORTH PARTNERS FUND INC CL A	CDN	NL	Hedge fund	N/A	N
AAM	AlphaNorth Asset Management	101	ALPHANORTH PARTNERS FUND INC CL A	CDN	NL	Hedge fund	N/A	N
AAM	AlphaNorth Asset Management	103	ALPHANORTH PARTNERS FUND INC CL A1	CDN	NL	Hedge fund	N/A	N
AAM	AlphaNorth Asset Management	200	ALPHANORTH PARTNERS FUND INC CL D	CDN	NL	Hedge fund	N/A	N
AAM	AlphaNorth Asset Management	201	ALPHANORTH PARTNERS FUND INC CL D	CDN	NL	Hedge fund	N/A	N
AAM	AlphaNorth Asset Management	202	ALPHANORTH PARTNERS FUND INC CL D UNITS	CDN	NL	Hedge fund	N/A	N
AAM	AlphaNorth Asset Management	203	ALPHANORTH PARTNERS FUND INC CL D1	CDN	NL	Hedge fund	N/A	N
AAM	AlphaNorth Asset Management	300	ALPHANORTH PARTNERS FUND INC CL F	CDN	NL	Hedge fund	N/A	N
AAM	AlphaNorth Asset Management	301	ALPHANORTH PARTNERS FUND INC CL F	CDN	NL	Hedge fund	N/A	N
AAM	AlphaNorth Asset Management	400	ALPHANORTH PARTNERS FUND INC CL G	CDN	NL	Hedge fund	N/A	N

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