

T+1 PREPARATIONS SURVEY RESULTS

The CCMA thanks the industry members who replied to the CCMA's T+1 Preparations Survey conducted in late June/mid-July 2023 and the industry associations that shared the survey with their members. Below is a summary of the results of the survey – the second of three, and the first since the Securities and Exchange Commission (SEC) announced, a year after issuing its proposed T+1 rule, a May 2024 U.S. T+1 transition date (Canadian market participants will migrate to T+1 on Monday, May 27, 2024). The survey results are also compared to responses to the same questions in the 2016 T+2 preparations survey, recognizing that the following differences between the T+1 and T+2 projects may have affected the T+1 survey results:

	T+2 Preparations Survey	T+1 Preparations Survey
Survey conducted:	9 months before transition	11 months pre-transition
Development scheduled to end:	8 months before transition	4-5 months pre-transition
Testing scheduled to end:	3 months before transition	1 month pre-transition

1. **On the positive side**, the results of the T+1 preparations survey indicate that industry participants have clearly moved beyond T+1 awareness – the subject of the summer 2022 survey – to concerted action despite obstacles to moving ahead with the shorter cycle, e.g.,:
 - i. **Competition for scarce resources:** A competing industry-wide project (deferred recently) required use of the same resources as T+1, so T+1 had been of lower priority until the SEC set a T+1 implementation date letting industry participants reset priorities.
 - ii. **Rule uncertainty:** Canadian securities regulators had to issue proposed rule changes on the basis of the U.S. draft T+1 rules, setting a particular time by which industry participants were to achieve 90% trade matching. The CCMA, based on feedback from its members, recommended an alternative time believed to better suit the Canadian marketplace and that would, if adopted, considerably affect development efforts (**NOTE:** CSA Staff have confirmed their intention to recommend a time of 3:59 a.m. ET T+1, providing the comfort considered by CCMA members to be a major step forward in proceeding with development).

2. **On the opposite end of the spectrum**, and attributable at least in part to the above issues, respondents are somewhat less confident/comfortable that there will be a smooth migration to T+1 than those replying to similar questions in the equivalent T+2 survey (see **Attachment 1**). Other reasons for this may include the following:
 - i. **SEC role:** T+1, as an SEC-pushed initiative, rather than the largely U.S.-industry-led T+2 project, meaning there is not (yet) provision for an industry-discussed go/no-go decision that had provided comfort that the industry could successfully transition to T+2.
 - ii. **Complexity and risk:** T+1 is significantly more complex and risky due to elimination of T+2's 'clean-up' overnight batch process on the night between T+1 and T+2.
 - iii. **Getting ahead of other markets:** North-American markets – the furthest west in the 'follow-the-sun' securities processing day – are moving to the shorter T+1 cycle *before* (instead of *after* as with T+2) almost all other global markets. With the exception of the CAD/USD currency pairing, foreign currency exchange needed to settle T+1 trades will continue to be on a T+2 (or greater) settlement standard.
 - iv. **Time is short:** Current matching percentages must more than double, and the time to automate – given lead times for transition to new solutions – is short.
 - v. **DLT/blockchain has not been the solution:** Following the 2017 transition to T+2, distributed ledger technology (DLT) had been identified as a solution for efforts to further shorten the settlement cycle; since then, a number of DLT-based financial projects have failed to scale effectively, and at the same time the SEC introduced uncertainty about how soon there might be a regulatory change to mandate same-day settlement, delaying decision-making as industry participants considered different solutions for T+0 vs T+1.

Highlights:

1. **Requests and responses:** The survey was sent to 576 individuals – CCMA committee members and newsletter recipients – with an unknown number forwarded through industry associations and others. The reduced number of responses received compared to the 104 replies to the first T+1 survey (on T+1 awareness) last year may be explained in part by these factors:
 - i. The survey was to be completed *only* by parties directly involved in clearing and settling in Canada (505 of the 576 survey recipients, excluding the 71 regulators, non-Canadian stakeholders, and associations), unlike for the first T+1, and second T+2, surveys).
 - ii. Some firms, which had set up T+1 project teams following the mothballing of the competing industry project, organized to enter a single consolidated response for their firm, which was not the case in the first T+1 survey and at best minimally the case in the equivalent T+2 survey.
2. **Response rate:** The 60 completed surveys of 505 qualifying survey recipients represents a 12% response rate, considered acceptable for drawing some general conclusions and suggested actions.
3. **Size of respondent firms:** The difference between first and second T+1 survey respondents was an increase in very small, and a material increase in very large, firms; a decline in small firms; and little change in the percentage of medium-sized firms.
4. **Stages of T+1 preparations:** The stage at which different industry participants are at in terms of implementation reflect the fact that those who initiate securities purchase or sale decisions (buyside) must rely on what those that process and settle these trades put in place as it is the latter that must first make technology/process change decisions.
 - Buyside respondents are predominantly (75%) in the ‘just starting’ or ‘analysis/business requirements for development’ stage.
 - A strong majority of sellside respondents (89%) and custodians (80%) have completed analysis/business requirements and are in internal development.
 - Infrastructure and service provider respondents are predominantly (75%) late in or have completed development.

From 50%-94% of respondents are in the internal testing planning phase; 30%-61% are planning external testing; 12%-25% are conducting internal testing; and three organizations (a custodian and two infrastructure/service providers) report having completed internal testing.
5. **Communications:** Communicating with up- and down-stream parties is in planning according to 30%-44% of respondents, and 13%-50% of respondents have communications underway – slightly less than in the equivalent T+2 survey. This is not considered surprising given there are more unknowns at this stage of the T+1 project than in T+2.
6. **High-priority issues confirmed:** In terms of what was identified as problematic to achieving T+1, 57% of respondents to whom the question applied considered being able to report and confirm trades at specified times as a major issue or somewhat of an issue; 53% see securities lending as a major/somewhat of an issue; 50% said that the ETF create/redemption process was a major/somewhat of an issue; and 48% identified foreign exchange as a major/somewhat of an issue.

Conclusion: The survey results show advances in T+1 planning, development, and testing preparation over the past 12 months. When T+1 responses are compared with replies to the same survey questions asked in the case of the move to T+2, we see greater concerns now than in 2016 about the ability to transition smoothly to a shorter securities cycle; this is evidence of a realistic understanding of T+1’s greater complexity as well as worries about uncertainty on some key issues and the more condensed timeline than for the move to T+2. The reduction in confidence in a successful transition is expected to prompt more attention on, and more resources assigned to, preparing for the T+1 transition. Now with comfort that the 90% trade-matching threshold must be met by 3:59 a.m. ET on T+1, we expect to see Canadian capital markets participant development and testing plans move ahead decisively, as well as more service provider and vendor solutions coming to market.

Response Highlights from Two Questions in T+1 vs T+2 Preparations Surveys

Note: Percentages shown calculated using number of respondents LESS number that replied N/A (not applicable).

Respondents to the T+1 survey are generally:

- **More confident/comfortable** about their firm's ability to complete the necessary T+1 development and testing with CDS, CDCC, Fundserv, and DTCC than they were for T+2 at roughly the same point of preparations (good), although more responded that they are uncomfortable or don't know than for T+2.
- **Less confident/comfortable** about their firm's ability to smoothly transition to T+1 and to manage the double settlement date: those responding that they were very or somewhat comfortable regarding the move to T+1 were respectively 7 and 4 percentage points **less** confident than in the T+2 survey, with a **greater** decline in those saying that they are **very** confident (24 and 6 percentage points less than for T+2).

Q5. How comfortable/confident are you that your firm is on target to...: (Please select one answer per row)	Very comfortable/confident	Somewhat conf./conf.	Very/Sw conf./conf. (to -N/A)	Not comfortable (to -N/A)	Don't know (to -N/A)
T+1 Preparations Survey					
Complete necessary development before December 31, 2023?	43%	41%	84%	10%	5%
Complete industry testing with CDS between January 8 and April 30, 2024?	58%	40%	98%	2%	0%
Complete necessary testing with Fundserv between January and April 30, 2024?	49%	40%	89%	3%	9%
Complete necessary testing with DTCC by April 30, 2024	60%	36%	95%	2%	2%
Smoothly transition to T+1 on Monday, May 27, 2024?	47%	43%	90%	2%	8%
Smoothly handle double settlement date volumes (T+1/T+2 trades) on May 28, 2024?	57%	35%	92%	2%	7%
Equivalent 2016 T+2 Preparations Survey					
To complete necessary development before January 31, 2017?	33%	31%	80%	13%	6%
To complete testing with CDS+CDCC between April 13-May 26, 2017?	38%	23%	90%	3%	6%
To complete necessary testing with Fundserv (Mock 1+2 - July 2017)?	34%	19%	91%	1%	5%
To complete necessary testing with DTCC (starts February 13) by June 30, 2017?	26%	20%	83%	5%	7%
Smoothly transition to T+2 on September 5, 2017?	71%	27%	97%	0%	2%
Smoothly handle double settlement date volumes (T+2/T+3 trades) on Sept. 7, 2017?	62%	33%	95%	0%	2%
Variance (2016-2023) and Conclusions re T+1 (Red means poorer results)					
To complete necessary development on time?	10%	10%	4%	-2%	-1%
To complete testing with CDS+CDCC on time?	20%	17%	8%	-1%	-6%
To complete necessary testing with Fundserv on time?	15%	21%	-3%	1%	4%
To complete necessary testing with DTCC on time?	33%	15%	12%	-2%	-5%
To smoothly transition on time?	-24%	17%	-7%	2%	6%
To smoothly handle double settlement date volumes on time?	-6%	2%	-4%	2%	5%

While being more comfortable about successfully completing their own testing for T+1, firm respondents to the T+1 survey are:

- **Significantly less comfortable** that their infrastructure/service providers/vendors, counterparties in the industry, and other firms in the industry will smoothly manage the transition to T+1 than was the case in the move to T+2.

Q7. How comfortable are you that...: (Please select one answer per row)

TOTAL T+1 Preparations Survey	Very comfortable/confident	Somewhat conf./conf.	Very and somewhat conf./conf.	Not comfortable/conf.	Don't know
Your infrastructure, service providers/vendors will smoothly handle T+1 transition?	34%	59%	93%	7%	0%
Your counterparties in the industry will smoothly handle the transition to T+1?	12%	60%	72%	19%	9%
Other firms in the industry will smoothly handle the transition to T+1?	7%	54%	61%	22%	17%

Equivalent 2016 T+2 Preparations Survey	Very comfortable/confident	Somewhat conf./conf.	Very and Somewhat conf./conf.	Not comfortable/conf.	Don't know
Your infrastructure, service providers/vendors will smoothly handle T+2 transition?	52%	43%	95%	2%	3%
Your counterparties in the industry will smoothly handle the transition to T+2?	41%	49%	91%	2%	7%
Other firms in the industry will smoothly handle the transition to T+2?	35%	52%	87%	2%	11%

Variance (2016-2023) and Conclusions re T+1 (Red means less positive results in T+1 survey)	Fewer "Very conf./conf." re T+1	More just "somewhat conf." re T+1	More worry re ctrparts/oth.	More "not conf."	More "don't know"
Your infrastructure, service providers/vendors will smoothly handle the transition?	-18%	16%	-2%	5%	-3%
Your counterparties in the industry will smoothly handle the transition?	-29%	11%	-18%	17%	2%
Other firms in the industry will smoothly handle the transition?	-28%	2%	-26%	20%	6%