CCMA ACMC Canadian Capital Markets Association / Association canadienne des marchés des capitaux

Time to talk T+1

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In 2017, Canada, the U.S., and other countries reduced the standard time it takes for debt, equity, derivatives, and investment fund transactions to settle – simultaneously exchange securities for payment – from three days after a trade (T+3) to trade date plus two days (T+2). This brought North-American market settlement standards in line with European practices. Now the U.S. securities industry is looking to lead the way to a shorter settlement cycle still. European and other major markets do not similarly have a shorter cycle on the immediate horizon. What does this mean for the different parties with a stake in the smooth functioning of our Canadian capital markets? Read on…

> "Nothing good ever happens between trade and settlement."
> – *Industry saying*

- ***Who is leading the charge?*** In late April 2021, the U.S. Securities Industry and Financial Markets Association (Sifma) – representing brokers and dealers, the Investment Company Institute (ICI) – acting for asset managers – and the Depository Trust & Clearing Corporation (DTCC) – managing transaction clearing and settlement – announced joint efforts to accelerate the securities settlement cycle from two days (T+2) to one day (T+1) or less. The Board of Directors of the cross-industry Canadian Capital Markets Association (CCMA), established in 1999 to help manage issues affecting multiple parts of the investment industry, and having co-ordinated changes from T+3 to T+2, approved the CCMA engaging again with the Canadian industry and U.S. to be ready to shorten Canada's settlement cycle if and when the U.S. announces the move to T+1.

> "At the midpoint of our analysis, the industry has not identified any insurmountable obstacles and believes that with the correct amount of coordination, socialization, planning, and testing, T+1 is achievable."
> – *SIFMA, ICI, DTCC joint August 13, 2021 letter to the Chair of the U.S. Securities and Exchange Commission (SEC)*

- ***Why the rush?*** U.S. industry leaders point to cost savings and other benefits of a one-day reduction in risk and collateral requirements, also saying that investors will receive their securities and money faster (although counterparties also will have to give up securities and cash earlier). While interest in a shorter settlement cycle arose in the U.S. for market structure reasons that are generally absent in Canada, Canadian capital market stakeholders historically have been unanimous that the competitive and cost risks of *not* staying in sync with U.S. settlement practice are considerably greater than those of working with the U.S. to remain on the same settlement cycle (see November 2000 Charles River & Associates study, *The Economic Case for Canada to Move to T+1)*. The Canadian Securities Administrators (CSA), commenting on earlier efforts to remove a day from the cycle, said: "We strongly support the need for the Canadian industry to migrate to [then] T+2 on the same timetable as the U.S.": we expect that the CSA will have a similar view when it comes to T+1. The Canadian Depository for Securities (CDS), while having the systems that allow T+1 settlement, also has recognized that a day's difference between standard U.S. and Canadian settlement cycles may result not only in inter-listed security arbitrage, but also in additional risks and greater margin costs as participants must manage collateral requirements for two different dates.

- ***When is it going to happen?*** The U.S. has been engaged since June 2021 in an intensive multi-meeting analysis, co-ordinated by Deloitte, with 200+ people from across the industry, including CCMA representatives. Preliminary thoughts are that the U.S. could move to T+1 settlement as early as the second half of 2023 – in two short years' time.

- ***What can we expect?*** Assuming the U.S. moves to T+1 as expected, most if not all participants in Canada's investment industry will be affected in some way – whether moving to a T+1 settlement cycle or adapting to an environment where Canadian and U.S. cycles differ. Transition either way, for many if not most firms, will be more difficult than the move to T+2. Industry service bureaus, vendors, custodians, and infrastructure providers will help smooth the way. Some industry participants may find the conversion relatively straightforward, with immediate benefits. For most, it is expected to be a major effort, with benefits longer in coming. But it will avoid long-term risks, complexities and costs of being on a schedule different from that of our greatest market partner.

- ***How will we manage?*** The 'how' a move to T+1 will take place is essentially the same as in the 2015-2017 T+2 project. Tools developed by the CCMA for the Canadian marketplace's T+3 to T+2 move, including the analysis and recommendations in the CCMA's 2018 *T+2 Project – Post-Mortem Report*, as well as U.S. work, will be helpful. As for T+2, the CCMA is connected with industry associations, service bureaus, vendors, and others to exchange information. The CCMA has including T+1 discussions in monthly CCMA Advisory Council meetings since April, and will organize T+1 committees once a T+1 date or range of dates is announced. A co-ordinated effort by all industry segments will be needed to achieve what will be required: making systems, operational, and behavioural changes necessary to move activity now mostly done before noon on T+1 to before midnight on trade date and accelerating other supporting activities. The major complicating factors are the need to enter data, allocate block trades, and confirm trade details earlier, and to effect settlement on a global basis when the global foreign currency settlement practice, as well as the standard securities settlement cycles of European and other major markets, remain on a T+2 basis.

> "It's not just about eliminating afternoon naps. A move to T+1 will be a fundamental change… unless folks are ready to accept more failed trades with the related dollar, opportunity, and reputational costs."

- ***Where can we find out more?*** Please visit the CCMA website at www.ccma-acmc.ca or email info@ccma-acmc.ca to submit questions, find out what work the CCMA already has underway, and sign up for T+1 newsletters and other notifications.