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Vancouver Financial District *(Source: Vancouver Economic Commission)*

T+1 Priority Round-Up

With less than a year to go until the May 2024 T+1 transition, Operations Working Group (OWG) members have prioritized open issues into high, medium, and low. High-priority items are the primary focus, being the ones posing the greatest impediments to a smooth T+1 migration. Medium- and low-priority items will be dealt with as time and resources permit.

HIGH PRIORITY ISSUES

Industry T+1 test plan *(OWG-001)*: Bilateral and industrywide unscripted and scripting testing are complex and critical for the move to T+1.	CDS issued its T+1 test plan on April 5, 2023, which was discussed and accepted at the May 29, 2023 meeting of the T+1 Steering Committee (T1SC). Connectivity testing will start in October 2023, allowing some early testing of individual firm system changes. The number of planned testing cycles – four, starting January 8, 2024 – are twice the number of test cycles in the move to T+2. **What's next?** CDS will issue detailed test scenarios in the summer of 2023.
ETF creation/redemption process *(OWG-003)*: ETF creation (the delivery of baskets of underlying securities that form ETF units) in the primary market may fail, which will cause secondary market trades settling on T+1 to likewise fail.	OWG reviewed an analysis prepared with input from the OWG's ETF Task Force, with four recommendations: (i) ask regulators for blanket exemptive relief to permit the posting of cash collateral to manage timing mismatches; (ii) develop at least an interim ETF industry collateral process (e.g., acceptable collateral, timing of delivery/return, safekeeping, settlement suspension of short securities, etc.); (iii) continue exploring a centralized collateral solution with CDS; and (iv) investigate other issues, e.g., lack of file standardization, settlement cycle mismatch, pricing. **What's next?** The ETF TF will continue working on solutions and report progress monthly to OWG.
National Instrument (NI) 24-101 *Institutional Trade Matching and Settlement* *(OWG-005)*: Canada's move to T+1 is subject to rule NI 24-101 that sets the timeline for confirming/matching trades in Canada.	Following the OWG's August 11, 2022 recommendation, and with the T1SC's August 23, 2022 approval, the CCMA advocated to the Canadian Securities Administrators (CSA) in a March 17, 2023 letter for 3:59 a.m. ET on T+1 as the minimum 90% T+1 matching deadline that best meets Canadian participant and foreign investor needs. In June, the CSA was asked to confirm 3:59 in July or as soon as possible in the summer of 2023. **What's next?** The CCMA will follow up with CSA staff.
Securities lending *(OWG-009)*: Securities on loan may need to be recalled for settlement purposes and if this process cannot be adapted for T+1, fails and/or costs will increase.	The Canadian Securities Lending Association (CASLA) is working with TMX/CDS, which is building an automated securities loan recall portal. Also, CASLA is working with third-party securities-lending solution providers and TMX/CDS to facilitate loan recall interconnectivity between securities lending counterparties using different providers. **What's next?** TMX/CDS intends to initiate recall portal testing and confirmation of the inter-third-party-provider solution during the summer of 2023.
Foreign exchange *(OWG-020)*: T+2 is the spot FX settlement convention for major currencies other than for CAD/USD pairings, which settle on T+1. Risks of currency and securities settlement mismatches may increase funding costs and fails.	Formal OWG discussions of the challenges of processing FX associated with securities trades have begun. **What's next?** This issue and solution options will be discussed by OWG members on August 10, 2023.

Ex-date processing during T+1 transition period *(OWG-022)*: Ex dates for entitlement processing (determining to whom and when an entitlement obligation is paid to the buyer or seller) are based on events' record dates. Large and complex issues could be complicated by the May 27, 2024 T+1 transition.

Exchanges will communicate with issuers, and the CCMA will make efforts to reach issuers' legal and other advisors to encourage that May 27, 2024 be avoided as much as possible in the case of new issues with corporate actions and entitlement events. It isn't possible to change terms of trust indentures, DRIP plans, etc. for pre-existing events, however, complex corporate action volumes are relatively low, and CDS will monitor in-flight events, particularly in the lead-up to/through the transition weekend and following week, notifying participants to help process events. **What's next?** The CCMA will develop messaging to contact the exchanges, legal and other advisors, and CDS will use it to advise transfer agents, encouraging the latter to provide the relevant information to issuers.

Trade confirmation, allocation, affirmation, matching process *(OWG-031)*: This process must be condensed materially to enable T+1 settlement without increasing fails

The T1SC approved amendments to the CDS Job Scheduler in June 2022 (slightly amended in 2023), setting new or confirming cut-off times for trade entry, corrections, block trade allocations and reconciliations by 7:30 p.m. ET on T with all ITP trades confirmed by both the buyside and their custodian by 3:59 AM ET on T+1. **What's next?** Infrastructure, service bureaus and technology providers are asked to provide bimonthly updates to the CCMA.

Conversion weekend backout plan *(OWG-038)*: The move to T+1 is more difficult, with the loss of a day to 'fix' things, and the SEC hasn't provided for a formal go/no-go decision checkpoint.

Discussion of this point has not yet started, however, participants should consider a T+1 recovery/back-out plan and resiliency testing. **What's next?** OWG will assign the development of different scenarios and considerations in late 2023 for broader OWG discussion.

Mutual funds: To move or not to move?

The Canadian Securities Administrators, in the December 15, 2022 CSA Staff Notice 81-335 *Investment Fund Settlement Cycles*, announced that they did not propose to mandate a T+1 settlement cycle for all mutual fund securities. Instead, the CSA intended to provide flexibility for the fund manufacturers to decide which funds could move to T+1 and which ones were better suited to remaining at T+2. Some of the considerations involved are the high percentage of foreign-owned securities in certain Canadian mutual funds which could lead to liquidity issues, fund cash-holding practices, and lack of U.S.-style mechanisms to help manage mismatches between purchasing and redeeming funds with different settlement periods. CSA staff were "… of the view that many Canadian mutual funds would be able to settle primary distributions and redemptions of their securities on T+1 if the standard settlement for portfolio assets held by the fund move to T+1 in Canada." The notice added that "…where practicable, mutual funds should settle primary distributions and redemptions of their securities on T+1 voluntarily." Original estimates of the conventional mutual and segregated funds that would move to the shorter T+1 settlement cycle were high for the approximately 90,000 funds that now settle on T+2. More recently, a number of fund manufacturers have been revisiting whether to move a smaller portion or any of their funds to T+1 for a variety of reasons. The potential for confusion as well as other possible effects on investors are important considerations. This does not affect the Canadian equity, debt, ETF, and derivative markets' move to T+1 – that ship has sailed – however, expect to hear more about funds in coming months as fund manufacturers continue to assess the situation."

Committee Updates

- CCMA committees continue meeting monthly. Visit the relevant committee webpage or email info@ccma-acmc.ca to join a committee.

Tools

- Discuss and get ready to post an updated T+1 Trade Matching Statement using this industry template.

To Dos

- Investigate implications of Mexican capital markets announcement of intention to initiate a formal request for a move to T+1 on May 27, 2024.
- The CCMA wrote to the CSA to align reporting timelines with industry recommendations

To come

- CSA decision on 3:59 a.m. ET on T+1
- CSA and IIROC final rules and CDCC draft rules
- CCMA T+1 readiness survey results