



# TIME TO TALK T+1

## Less than six months and counting...

The new year is approaching and we have fewer than six months to go until markets in North America move to a standard one-day settlement cycle (T+1). There's a lot happening, from enabling rule changes being published (see p. 2), to the TMX's securities lending portal development, to testing: CDS participant testing begins on **January 12, 2024** and Fundserv's first test cycle launches on **January 18, 2024**. Stay tuned!

### Updated asset list

The [T+1 Asset List](#) (now v.3) has been updated to reflect comments received, mostly clarifications; none of the changes is believed to present implementation issues. A [track-changes version](#) includes a clarifying introduction and noteworthy changes are highlighted in yellow. They include exchange-traded notes and commodities (now confirmed as T+1); private company shares, changed to 'as per agreement between transacting parties;' and structured products whose settlement cycle is determined by the issuer. Currently, 90% of structured products processed through Fundserv are on a T+2 settlement cycle, however, like conventional mutual funds and segregated funds, it is not clear how many and which products will move to T+1. More to come.

### HIGH Priority Issues – The Latest and What's Next

**NI 24-101(OWG-005):** Canada's move to T+1 is subject to NI 24-101 that sets the time to confirm/match trades in Canada.

**Closed pending final rule change release:** With [CSA Staff Notice 24-319](#) referencing 3:59 a.m. ET on the day after the trade (T+1) to achieve 90% matching, the industry is close to finishing development. **What's next?** Await final rule, expected late 2023/early 2024, to confirm the 3:59 a.m. time and review any accompanying transition guidance.

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

**Closed:** The amended [CDS Job Scheduler](#) approved in June 2022 (and slightly modified in 2023) set new, or confirmed existing, cut-off times for trade entry, correction, block trade allocation, and reconciliation by 7:30 p.m. ET on T, with buy-side firms and custodians to confirm institutional trades by 3:59 a.m. ET on T+1. **What's next?** Review following CDS testing.

**Securities lending (OWG-009):** Securities on loan may need to be recalled and, if recall notifications are not received in good time, this could lead to settlement delays.

**Closed:** The TMX/CDS automated securities loan recall portal, which had Canadian Securities Lending Association (CASLA) input, will provide loan recall interconnectivity among counterparties using different third-party securities-lending vendors. With market support for the service, the messaging layer and front-end portal for the TMX recalls hub are under development, with key dependencies remaining vendor availability and resources. Also, there is agreement on a 3-p.m.-on-T recall best practice. **What's next?** Participants wanting to lock in favourable pricing for the new securities lending service should contact the TMX **by the end of December 2023**. Testing and go-live are scheduled for Q1 2024.

## HIGH Priority Issues – The Latest and What’s Next

**Foreign exchange (OWG-020):** With T+2 being the spot FX settlement convention for major currencies (except CAD/USD pairings), currency and securities settlement mismatches may increase funding costs and fails.

**ETF creation (OWG-003):** Challenges in ETF creation in the primary market may impact secondary markets (see [ETF Report](#) for more details).

**Industry T+1 test plan (OWG-001):** Bilateral and industrywide unscripted and scripting testing are complex and critical for the move to T+1.

**Ex-date processing during T+1 transition period (OWG-022):** Ex dates for corporate 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.

**Conversion weekend backout plan (OWG-038):** With the loss of a day to ‘fix’ things, the move to T+1 is more difficult than the move to T+3 and T+2. The SEC hasn’t (yet) provided a formal go/no-go decision checkpoint, which could reduce risk.

**Open:** Formal Operations Working Group (OWG) discussions of FX processing challenges relating to securities trades continue. Also, the CCMA recommends reading the FX Professionals Association’s [Buy Side Guidance in Preparation for T+1 Settlement](#) – voluntary, non-binding suggestions developed by that association’s committees. **What’s next?** A new autohedge solution is expected to be presented to OWG members at a future meeting.

**Open:** The Canadian ETF Association (CETFA) and CCMA have discussed a proposal to seek clarity regarding the ETF creation process. **What’s next?** CCMA ETF Task Force and CETFA members will be pursuing regulatory guidance.

**Closed:** CDS issued an updated *T+1 Detailed Industry Test Guide* (v1.2) on November 21, 2023, and CDS and CDCC’s test schedules are available to CDS participants on the [TMX Key Initiatives Portal](#). This portal also includes monthly update meeting presentations and a November 10, 2023 list of testing-specific FAQs. Fundserv and its participants are also preparing for January and February testing. **What’s next?** CDS connectivity testing and test region set-up with participants is expected to complete on schedule by mid-December.

**Open:** Marketplaces will communicate with issuers and their advisors in 2024 to encourage, as much as possible, avoidance of the T+1 transition period as a date for new issues with corporate actions and entitlements. While not possible to change trust indenture terms, DRIP plans, etc. of existing events, complex corporate action volumes are low, and CDS will monitor in-flight events, particularly in the lead-up to and through the May 2024 transition weekend and following week; CDS will contact participants where necessary to help process events. The CCMA’s Communications & Education Working Group has also developed an [FAQ](#) (#29.) with what issuers and their advisors should know about T+1. **What’s next?** TMX will provide a notice to issuers and encourage transfer agents/others to convey relevant information to the issuers they service.

**Open:** The CCMA asked industry participants that are individually developing their T+1 recovery/back-out plan and resiliency testing to provide questions and issues regarding factors that may complicate transition, and the different scenarios that should be planned for. The CCMA’s Executive Director will be part of the U.S. T+1 transition planning and Command Center (centre for some of us!). **What’s next?** OWG members will discuss transition/backout-plan issues at upcoming meetings.

## Regulatory announcements – CSA and CIRO

- On October 19, 2023, the **Canadian Securities Administrators (CSA)** [proposed amendments](#) to National Instrument 81-102 *Investment Funds* to remove an impediment to the voluntary migration of mutual fund purchases and redemptions to next-day settlement. Mutual funds moving to T+1 will be able to redeem their securities for non-payment on the business day after scheduled (T+1) settlement, i.e., T+2, rather than the current rule’s T+3. Interested parties may comment on the proposal until **January 17, 2024**.

- On October 26, 2023, the **Canadian Investment Regulatory Organization (CIRO)** announced in [Bulletin 23-0150](#) that the CSA had approved CIRO amendments to update the Universal Market Integrity Rules (UMIR) and Investment Dealer and Partially Consolidated Rules (IDPC) proposed in the April 20, 2023 [CIRO Bulletin 23-0054 – Amendments to facilitate the investment industry’s move to T+1 settlement](#). In Bulletin 23-150, CIRO also published an updated version of GN-4800-21-001 – *Guidance on the regular settlement date to be used for certain foreign exchange hedge trades* to reflect recommended T+1 practices.

Both CIRO’s rule and guidance amendments will be effective May 27, 2024. CIRO also clarified that with the amendments repealing the requirement for dealers to file quarterly broker-to-broker trade matching exception reports, dealers will not be required to file such a report for the June 30, 2024 quarter-end; any final quarterly report would be filed for the March 31, 2024 quarter-end.



### Committee Updates

- CCMA [committees](#) continue meeting monthly and minutes are available for anyone unable to attend.



### Tools

- [FAQ \(#29\)](#): What should issuers and their advisors know about T+1?
- Updated [T+1 Asset List](#) (v.3)



### To Dos

- Sign up for TMX securities lending portal by the end of December 2023 to lock in favourable pricing
- Read the ValueExchange’s T+1 global readiness [survey results](#)



### To Come

- CSA final rules, and CDCC and exchanges’ draft rules
- Mutual fund FAQ – how will advisors and investors know what funds will move to T+1?
- More information on Mexico’s move to T+1
- First testing results from CDS and Fundserv

### Too early to think about...

After India’s successful move to T+1 earlier this year, the Securities and Exchange Board of India (Sebi) is now working on a move to [T+0 settlement](#) by March 2024; ‘instantaneous settlement’ is expected to take a further year.