

TIME TO TALK T+1

Financial centre, Montreal
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Counting down; counting on you...

A lot has happened since the last newsletter was published two months ago. While we've been focusing on the calendar-day countdown—**117 days** left until T+1 implementation on May 27, 2024—for those attached to their weekends, we're now looking at **80 business days**. As the clock ticks down, the pace is picking up and we're seeing the continued closing of issue logs in Canada.

First CDS/marketplace and Fundserv test cycles successful

CDS/listing exchanges/other marketplaces: The first of four industry-wide test cycles went as expected, with most issues surfacing early due to the usual connectivity issues; these have been resolved. Intraday (hourly slice) files—received from 11 (including all large ones) of 14 marketplaces—were successfully processed. Most participants took part in the first cycle, with additional firms to participate in future cycles. Corporate actions testing will start with the second cycle (February 9-23).

Fundserv: Fundserv reported that, for the first of two T+1 mock cycles, almost 23,000 funds were updated from T+2 to T+1 in the user acceptance testing (UAT) environment across 30 manufacturer codes. No issues were reported.

Mutual funds—when will we know which funds will move to T+1?

The Canadian Securities Administrators (CSA), while expecting most mutual funds to voluntarily transition to next-day (T+1) settlement as of May 27, 2024 with debt, equity, and other securities, did not mandate all funds to move to the shorter cycle. CCMA members developed a summary of [views and considerations](#) for dealers, including options looked at to date, to operationalize and communicate those funds that will move to T+1 settlement and those that won't. In the meantime, what *do* we know?

- **National Bank Investments** and **AGF Investments** have announced the intention to move 100% of their mutual funds to T+1 on May 27, 2024; **Desjardins Trust** has said all but one of its funds will likewise go to the shorter cycle then.
- **Custodians** are increasingly asking their fund manager clients when they will make decisions.
- A **mutual fund transfer agent service provider** has set a deadline of **April 1, 2024 (no fooling)** 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.
- **Fundserv** is expected to survey fund managers shortly to get a general sense of how many funds are expected to move to T+1. In the week leading up to the May 27, 2024 implementation date, Fundserv will provide daily updated spreadsheets on the [Fundserv Standards T+1 Transition and Testing](#) member site to identify funds moving to T+1 based on actual changes submitted by manufacturers via Fund Setup (FD) files.
- **Fund managers** are encouraged to make known their decisions regarding which funds will or will not move to T+1 on May 27 as soon as possible, and ideally no later than April 1.

Additional questions for each party to a mutual fund purchase or redemption, which have arisen more recently, will be reviewed to determine if any should form industry FAQs.

ISDA co-ordinating legacy trade remediation information

The International Swaps and Derivatives Association (ISDA) is co-ordinating information sharing to facilitate the possible remediation of legacy trades—transactions outstanding as of the pre-transition weekend—as it did in 2017 for the move to T+2. Starting in early February 2024 and continuing until mid-March, [ISDA members](#) can submit what firms expect to do with respect to outstanding (live) transactions executed before the T+1 transition date and continuing afterward (see grid format in CCMA [FAQ #26](#)). ISDA will aggregate and share information received in the latter half of March. Derivatives market participants can then consider other firms' intentions and decide on a final course of action.

HIGH Priority Issues—The Latest and What's Next

ETF creation (OWG-003):

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

Foreign exchange (OWG-020):

The T+2 spot FX settlement convention for major currencies (except CAD/USD pairings) will lead to a currency/securities settlement mismatch, which may increase fails and funding costs.

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.

Industry T+1 test plan (OWG-001):

Bilateral and industrywide unscripted and scripting testing are complex and critical for the move to T+1.

OPEN (getting closer): The Canadian ETF Association (CETFA) and CCMA have agreed to pursue regulatory guidance to address creation challenges in a T+1 environment. **What's next?** A submission is being finalized for CETFA and CCMA approval, with a target to submit the letter in February.

OPEN: Operations Working Group (OWG) members continue to review T+1-related FX processing challenges. A new ACI The Financial Markets Association [Briefing Note: USD T+1 Securities Settlement and the Impact on FX](#) was released on January 15, 2024 (this is in addition to the FX Professionals Association's [Buy Side Guidance in Preparation for T+1 Settlement](#) shared previously). **What's next?** Further discussion is underway.

OPEN (new development): The TMX advised issuers and their advisors to avoid, as much as possible, the T+1 transition period around May 27, 2024 for new issues with corporate actions and entitlements. The CCMA's Communications & Education Working Group developed an FAQ ([FAQ #29](#)) with what issuers and their advisors should know about T+1. CDS will monitor in-flight events in this period, contacting parties where necessary to help with processing. In a new development, Nasdaq [Notice 2024-001](#) says that Nasdaq, other U.S. self-regulatory organizations and DTCC have agreed that no securities will be traded ex-dividend on May 28, 2024 to avoid confusion about the proper settlement; this differs from what had been expected. **What's next?** The industry will consider whether any action is warranted in response to the U.S. announcement.

OPEN: The CCMA asked industry participants, that are 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. The CCMA also will be co-ordinating a T+1 readiness survey in March/April.

CLOSED (with update): CDS issued an **updated T+1 Detailed Industry Test Guide (v1.4) on January 22, 2024** (CDS and CDCC's test-related information is available to CDS participants on the [TMX Key Initiatives Portal](#)). The first testing cycle (January 12-26) has successfully concluded.

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.

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.

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 (with update): On December 14, 2023, the Canadian Securities Administrators (CSA) released [final changes](#) to National Instrument (NI) 24-101, *Institutional Trade Matching and Settlement*, confirming the industry request of 3:59 a.m. ET on T+1 as the time for meeting the 90% matching threshold and addressing other administrative matters.

CLOSED (with update): The TMX/CDS automated securities loan recall portal, developed with the input of the Canadian Securities Lending Association (CASLA) and with broad market support, will provide loan recall interconnectivity among counterparties and different third-party securities-lending vendors (there is agreement on a 3:00-p.m.-on-T recall best practice which the hub will facilitate). CDS reports that Recalls Hub Legal Agreements were sent out to interested parties in January, with a demo expected in the first half of February. Steady progress is being made towards being ready to start testing of the Recalls Hub later in February.

CLOSED: The amended [CDS Job Scheduler](#) cut-off times for trade entry, correction, block trade allocation, and reconciliation (7:30 p.m. ET on T), and buy-side and custodian institutional trade confirmation (by 3:59 a.m. ET on T+1), were agreed to and systems changes have been made. Testing to date has presented no showstoppers.

In addition to the above developments on high-priority issues, # medium- and lower-priority issues have been closed as having been addressed or determined not be an obstacle to T+1 (see [OWG Issue Log](#) for the latest information). A new legal-regulatory issue, NI 62-104, Takeover and Issuer Bids (OWG-033) was confirmed as requiring a rule change (it currently specifies a three-day period to settle accepted tender offers and should be made consistent with the new settlement cycle. A letter is being drafted and will be submitted, but is not seen considered an impediment to successfully achieving T+1 transition.



Committee Updates

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



To Dos

- CCMA members that are also members of ISDA are encouraged to participate in ISDA-coordinated information-sharing regarding intentions related to the remediation of legacy trades through ISDA (see above)
- Read industry comments on CSA Notice and Request for Comment on Proposed Amendments to NI 81-102 *Investment Funds*
 - [Andy Mitchell \(The Investment Funds Institute of Canada\)](#)
 - [Borden Ladner Gervais LLP](#)



Tools

- Federation of Mutual Fund Dealers (FMFD) members are invited to [sign up](#) for a **February 14, 1 p.m. ET** roundtable discussion regarding what dealers and advisors need to know about T+1



To Come

- **Save the date:** A CCMA/ValueExchange webinar on T+1 global readiness survey results is being arranged for the third week of February
- CDCC and exchanges' draft rules
- More information on Mexico's move to T+1
- ISDA/SIFMA/CCMA joint T+1 factsheet aiming to provide clarity to market participants from a derivatives (and securities) perspective, highlighting the potential/expected impacts based on feedback from ISDA members.