

TIME TO TALK T+1

Vancouver Financial District (Source: Vancouver Economic Commission)



Tick tock, tick tock...

Time is passing, T+1 testing is continuing to be executed successfully, and ... there's a ways to go. As **May 27, 2024** approaches, more attention is being devoted to that part of the clearing and settlement chain that the shorter cycle is designed to benefit through risk reduction and efficiency, that is, the investors. Also focused on a smooth T+1 implementation, the CCMA T+1 Steering Committee has approved for use:

- CCMA [Two-Week T+1 Transition Support Plan](#), to run from Tuesday, May 21 – Friday, May 31.
- Approved [Project Acknowledgement Form](#) (PAF) and [parties expected to sign](#) and return one (as done in the 2017 move from T+3 to T+2) **on or before April 26, 2024** contributing to comfort regarding overall industry readiness.

Also, we've extended the deadline for the T+1 Readiness Survey. If your firm has not yet responded to the [readiness survey](#), please do so by the end of Friday, April 5. Survey results will be released later in April.

Message to fund manufacturers – which funds are moving to T+1?

With funds neither mandated to move to a standard T+1 settlement cycle when other securities do on May 27, 2024, nor to announce which funds will do so, the CCMA met with Fundserv and the Investment Funds Institute of Canada (IFIC) to discuss solutions for CCMA members with hard-coded systems changes, as well as dealers and advisors that must know now to be able to plan for and communicate with clients about T+1 implications. The CCMA has [written to fund manufacturers](#) processing through Fundserv or otherwise requesting they:

1. [Complete this very short CCMA funds survey by April 12, 2024](#) to make known publicly which funds with a T+2 settlement cycle will move to T+1 and which will not. Results will be shared weekly on the CCMA's [T+1 Portal](#). (**Note:** Fundserv has advised that fund manufacturers to date have indicated that 62% of the 92,499 funds on the Fundserv network currently settling on T+2 will move to T+1).
2. Other than for funds moving to T+1, minimize (and if possible avoid) fund settlement cycle changes during the week of May 27-June 1, 2024, to mitigate transition risk, facilitate post-implementation regression testing, allow for a stabilization period, and reduce the potential for industry confusion.
3. Formally send notices (rather than rely on files) to advise dealers of settlement cycle changes that occur *after* May 27 for the balance of 2024.

Preparing advisors and investors

While many institutional investors have already been made aware of the timing and process changes of the move to T+1, retail advisors and clients generally have not. The CCMA Communications & Education Working Group collaborated to develop [communications material](#) that can be tailored by dealers and advisors, as appropriate, for the use of mutual fund and segregated fund dealers, as well as investment dealers, to help train advisors and provide information to customers in various contexts in a consistent way to minimize confusion.

High Priority Issues

Five of the eight Canadian capital markets T+1 priority issues have been closed, with the following updates:

- **Industry T+1 test plan (OWG-001):** Fundserv's two test cycles completed without any issues. The third of four CDS/CDCC test cycles has also successfully concluded, with the fourth and final cycle scheduled for April. Refer [TMX Key Initiatives Portal](#) for limited later testing for those interested.
- **Securities lending (OWG-009):** The TMX/CDS automated securities loan recall portal, developed with the input of the Canadian Securities Lending Association (CASLA) to provide loan recall interconnectivity among counterparties and third-party securities-lending vendors, is well into testing with promising results. This portal, expected to launch fully at the end of April 2024, will streamline the process of receiving sales notifications from beneficial owners whether through technology enhancements or more frequent batch processing, enabling lending desks to act on a timely basis. The Risk Management Association (RMA), with CASLA and SIFMA members participating, continues working on a supportive best practices paper.
- **Conversion weekend backout plan (OWG-038):** On March 26, the CCMA met with staff of the Securities and Exchange Commission (SEC) for a productive conversation regarding the T+1 implementation period. The CCMA learned that SEC staff, through discussion with American capital markets industry representatives, are comfortable with general U.S. T+1 transition preparations and readiness. As well, the SEC has carefully assessed a range of scenarios in the context of past experiences with significant events, including market/economic disruptions (e.g., 2008 financial crash), natural disasters (e.g., Hurricane Sandy), and global incidents (e.g., 9/11): in these very serious cases, settlement continued even if markets closed temporarily. The SEC believes that the transition itself is very unlikely to be problematic from a systems and technology perspective, and the SEC has the capacity to act quickly in emergencies. While there may be a challenge in the early days following T+1 implementation (more for behavioural than technology reasons), the SEC does not anticipate a situation that would require a system-level back-out and recognizes that last-minute unwinding would be even more difficult if Canada, Mexico, and others have already moved to T+1 on May 27. Instead, the most likely response would be consideration of very targeted relief or exemptions limited to those affected. SEC staff also mentioned some industry participants were planning for contingency work shifts over the first two weekends after implementation to manage any accumulating errors/fails. The SEC will monitor proceedings on the implementation weekend and is confident that T+1 settlement will successfully proceed on May 28, 2024 in the U.S. as mandated.

The other closed issues (with no update) are the trade pre-matching, correction, allocation, confirmation process (OWG-031) and the final National Instrument (NI) 24-101(OWG-005):

OPEN HIGH PRIORITY ISSUES

ETF creation (OWG-003):

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

OPEN: The CCMA and Canadian Exchange-Traded Fund (ETF) Association (CETFA) [wrote](#) jointly to securities regulators seeking regulatory guidance confirming that accepting cash collateral for delayed basket securities in the ETF unit subscription process is permitted. **What's next?** CETFA and CCMA will submit additional legal analysis requested.

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.

OPEN: FX remains a persistent challenge, and while extending hours of FX desks and CLS Bank operations has been discussed, nothing has been implemented. Alternative interim measures include moving FX to custodians, changing FX booking from T+2 to T+1, and/or pre-funding. Helpful resources include an ACI The Financial Markets Association [Briefing Note](#) and FX Professionals Association's [Buy Side Guidance in Preparation for T+1 Settlement](#). **What's next?** Further discussion planned.

Ex-date processing during T+1 transition period (OWG-022):

Ex dates for corporate processing are based on events' record dates. Large and complex issues could be complicated by the May 27, 2024 T+1 transition.

OPEN: In a March 21, 2024 [Staff Notice](#), 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 (see also CCMA [FAQ #29](#)). **What's next?** CDS will publish, every Friday afternoon from April 26 through May 24, a list of all equity corporate actions in a confirmed state with an ex, record, expiry, or CDS payment date falling within the transition period.

To Dos

- Fund manufacturers are requested to please [complete this very short survey by April 12, 2024](#) to identify which of their T+2-settling funds are/are not moving to T+1.
- Each CCMA member is asked to discuss their role and requirements internally, and with others they interconnect with, from an industry-wide perspective in the context of the Canadian [Two-Week T+1 Transition Support Plan](#).



Tools

- Fundserv members can access what has been reported regarding fund settlement date changes (if there are issues accessing the site, contact tech@fundserv.com).
- SEC staff published these resources on March 27, 2024 related to T+1: EXAMS [announcement](#) and [risk alert](#), [FAQs](#), and [Investor bulletin](#).



Committee updates

- CCMA committees continue meeting monthly. Visit the relevant [committee webpage](#). Email info@ccma-acmc.ca to join one.



To come

- The CCMA has worked with ISDA and SIFMA on a [draft T+1 Settlement Cycle Factsheet](#) regarding possible T+1 impacts on OTC derivatives transactions; each respective association's member feedback is being collected by Friday, April 5, 2024 and the final version, to be published in April, will be available on the CCMA website.
- European Securities and Markets Authority (ESMA) Report in late 2024 following the [Feedback Statement](#) of the Call for Evidence on Shortening the settlement cycle (although T+1 is technically possible, mandating a harmonised shift from T+2 to T+1 in the EU is unlikely for some time).