

# LET'S TALK T+1

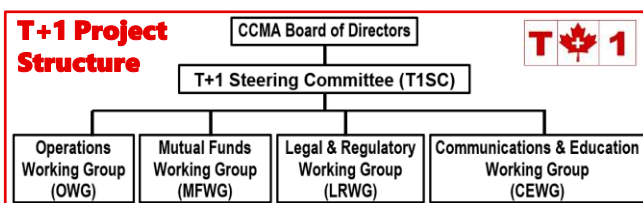


## New Year's Resolution

After the **December 1, 2021 announcement** that Canadian industry participants and U.S. counterparts would jointly halve the number of days it takes to clear and settle a security in the first half of 2024, Canadian capital markets participants sprang into action. The year 2022 started with a bang, and a New Year's resolution: ramp up quickly to shorten the standard debt, equity, and fund settlement cycle by a day to trade date plus one (T+1). There's been a great response to the call for volunteers for the T+1 Steering Committee (T1SC) and its four working groups. Each working group has confirmed a preliminary list of issues, which can be found through the CCMA's **T+1 committees** page, along with meeting material, and how to participate in their work. Thanks to 12 financial industry associations getting the T+1 message out, organizing T+1 information sessions for their membership, and ensuring their members' issues are identified, we continue to receive new T+1 newsletter subscriptions (please **sign up**) and expand our LinkedIn presence (please **follow us**).

## Yes, but what's really been done?

Canada's target high-level T+1 timeline, linked to the U.S. implementation schedule, has been developed, and will be refined over time as more is known. Capital markets participants should begin developing their project teams and plans accordingly.



### TARGET Canadian T+1 Timeline

2021												2022												2023												2024					
J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J
PMO	★	★	★								★																														
OWG	✓	Monitor U.S. efforts	Draft issues/asset lists, ID solutions										Implement procedural/systems changes										Go live on chosen date in Q1/2 2024																		
MFWG	✓	Monitor U.S. efforts	Complete issue list, seek solutions										Implement procedural/systems changes										Industrywide testing/refine/etc.																		
LRWG	✓	Legal analysis drafting	Review legal issues with industry/regulators						Regulatory changes completed/approved																																
CEWG	✓	Convert website to T+1	Develop/issue communication eletters, checklists, events, surveys, releases, etc.																																						


- Milestones**
- ★ U.S./Canadian efforts begin
  - ★ CCMA T+1 PMO established (Mar. 2021)
  - ★ Canadian T+1 study formally announced (Apr. 29, 2021)
  - ★ T+1 project a go announced with U.S. (Dec. 1, 2021)

- Legend**
- PMO Project Management Office (CCMA)
  - OWG Operations Working Group (OWG)
  - MFWG Mutual Funds Working Group (MFWG)
  - LRWG Legal & Regulatory Working Group (LRWG)
  - CEWG Communications & Education Working Group (CEWG)

The **Operations Working Group (OWG)** successfully grappled with an issue that American professional baseball catcher Yogi Berra captured perfectly with the words: **“When you come to a fork in the road, take it.”** The question OWG members sought to answer is: “Can we continue to follow today’s clearing and settlement process with a tweak or two and still be able to settle on T+1 OR do we need to change the deadlines/schedules to require more trades to be reported, corrected, allocated, and confirmed before overnight batch settlement begins on T?”



Reducing the standard settlement cycle by 50% from T+2 to T+1 removes a 24-hour period to correct errors, manage liquidity, handle outages, etc. Some improvements could be achieved by only changing procedures, staffing, and behaviour (‘behavior’ for our American readers), but absent scheduling changes, an **additional 5% by number of trades, and over 10% by value could fail to settle on a timely basis on T+1** (the difference between what has been confirmed at 4 pm on T+2 today compared to 4 pm on T+1, based on the most recent data available, and assuming today’s ‘tolerated’ 2% fail rate).

 <b>Institutional Trade Processing Report Card</b> <b>Debt &amp; Equity – Entered &amp; Confirmed Statistics</b> November 2021 (USD conversion rate 1.239549973)								
	Overall <b>Entered</b> (e.g., by Broker/Dealers)				Overall <b>Confirmed</b> (e.g., by Custodians)			
	# Trades (Cum.)	% Cum.	Total Value (Cum.)	% Cum.	# Trades (Cum.)	% Cum.	Total Value (Cum.)	% Cum.
T to 4PM T	25,076	10.1	\$232,259,374,483.48	45.9	16,870	7.2	\$148,488,527,436.46	34.8
T to T midnight	208,303	83.8	\$393,045,670,818.64	77.6	78,305	33.3	\$211,845,096,403.33	49.6
T to T+1 4PM	237,013	95.4	\$452,645,578,958.62	89.4	220,834	93.9	\$364,138,123,313.94	85.3
T+2 4PM	244,036	98.2	\$485,942,095,270.42	95.9	230,392	98.0	\$406,645,138,423.53	95.3
<b>TOTAL</b>	<b>248,570</b>	<b>100.0</b>	<b>\$506,570,544,939.50</b>	<b>100.0</b>	<b>235,091</b>	<b>100.0</b>	<b>\$426,918,144,021.92</b>	<b>100.0</b>

Due to concerns about a materially higher fail rate in 2024, T1SC approved OWG members’ recommendation to move standard deadlines for entering allocations, confirmations, and any known corrections to trade date. This will allow most trade reconciliations to be completed before the next business day starts (T+1) – also the new settlement date starting in 2024. It provides the greatest chance of long-term success with the fewest lasting downstream impacts (failed trades, etc., with associated costs and risks). And finally, it keeps Canada aligned with the U.S, from both a settlement and stock exchange point of view, positioning Canadian markets to move more easily to T+½ or T+0 in the future.

While the good news is that the decision closes one issue that could have been a long-drawn-out debate, expect the addition of several new issues relating to how to move more activity to trade date after markets close and before overnight batch settlement – it’s an interconnected world we operate in.

And Yogi’s *other* fork in the road? While planning, building, and testing to advance activity from T+2 to T+1, industry members should also take the path of seeing what easily can be done to improve matching rates using current systems.

The **Mutual Fund Working Group (MFWG)** has reviewed highlights of the T+2 project experience, including regarding whether all T+2-settling funds were expected to move to T+1 settlement date change method, timing, go/no-go decision and readiness surveys. Due to the additional complexity of T+1 as compared to T+2, a number of new items were discussed that have been added to the working group’s issue list. The good news is that fund companies, dealers and Fundserv today support T+1 settlement for 9% of the active funds on the Fundserv network. These are primarily money-market funds and high-interest savings accounts (HISAs). For those interested in joining the working group, please email [workinggroupcoordinator@fundserv.com](mailto:workinggroupcoordinator@fundserv.com).

The **Legal & Regulatory Working Group (LRWG)** has already narrowed its list of 72 potential legal and regulatory issues. T1SC members approved LRWG members’ recommendation to close 21 of these logs, leaving a mere 51 to go. If this were a competition, LRWG members would be winning by a landslide...

The **Communications & Education Working Group (CEWG)** is developing a communications plan, in addition to awareness-building tools and a preliminary T+1 readiness survey for later this year.

## Tips and 'To do's'

- Check your firm's institutional trade-matching record – is it better or worse than the **industry average?** Why?
- How much can your firm improve its trade matching rate *now*, before systems changes – for example, when did you last fully check your counterparty standing settlement instructions (SSI) for interactions among brokers, asset managers and custodians?

## Tools

The CCMA's frequently asked questions (**T+1 FAQs**) facility is open for business. Email us at [info@ccma-acmc.ca](mailto:info@ccma-acmc.ca) and we'll answer what questions we can; those that we can't answer immediately will be shared with the appropriate working group to include in their deliberations.

## To come

- T+1 Webinar – The Basics
- T+1 Readiness Self-Assessment Checklist
- Canadian and U.S. lists identifying what assets currently settling on T+2 likely will move to T+1 settlement.



**What one industry rep is saying:**  
Canadian ETF Association (CETFA)  
Executive Director Pat Dunwoody confirms:  
“T+1 is definitely a high priority for  
CETFA members in 2022.”