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TIME TO TALK T+1

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

Time out? Or running out of time?

Blood pressures are rising judging by the headlines: *Global Custodian* reports: Middle- and back-office upgrades needed ahead of T+1, finding 81% of U.S. and Canadian brokers and banks are using manual processes or home-grown systems that in many cases just won't be enough. T+1 will be here sooner than you think. Get ready now. says Accenture, whose survey identifies the three top challenges as mobilized T+1 programs (40% of respondents haven't), reasonable budget (42% expect to spend US$6-$10 million for T+1, but is this enough?), and strategic approach (60% say that one in five trades involve some manual intervention). So, what are we waiting for?

In Canada, CCMA members continue to expect the release (for 90-day comment) of the Canadian Securities Administrators (CSA) proposed rule changes to National Instrument (NI) 24-101 – *Institutional Trade Matching and Settlement* and related T+1-related material. Rules from other regulators – in particular, the Investment Industry Regulatory Organization of Canada (IIROC) – will likely follow in the Spring.

And our neighbours to the south? The U.S. capital markets industry is also waiting for a sign from above: from the U.S. Securities and Exchange Commission (SEC). On October 10, 2022, nine financial industry associations, representing capital markets participants globally, wrote jointly to the SEC, asking for confirmation of at least the final transition date to T+1 (ideally, Labour Day weekend 2024), while work continues on any other aspects of the related rule changes still under review. A September 2015 letter from the SEC provides a precedent for concurring with the industry's proposed two-year target implementation date for T+2: Labour Day weekend 2017.

One step forward; one pivot

Time set for non-exchange trade entry: For greater certainty and to reduce fails, the CCMA's Operations Working Group (OWG) proposed, and the T+1 Steering Committee (TISC) agreed to, a new standard**: that institutional trades (and allocations) should be entered into the CDS system no later than 8 p.m. ET on T**. By meeting this deadline for trade entry, CDS participants will provide a more reasonable timeframe for the buyside and custodians to confirm trades for settlement. NI 24-101 doesn't currently have a cut-off for trades to be submitted, but requires instead 90% of trades (by volume and value) to be matched – confirmed – for settlement by noon on T+1 in today's T+2 environment.

Reversing course – voluntary offers: A 'closed' corporate actions issue was re-opened. DTCC had intended to eliminate the cover-protect/letter-of-guaranteed-delivery period associated with voluntary securities offers when an offeror can't deliver certificates or other documents by the offer expiry time: such letters allow a two-day post-offer-expiration delay (ED+2) to provide the required documents. Responding to U.S. participant requests, DTCC agreed to shorten this period to ED+1 trading day, consistent with other T+1 changes. The OWG proposed, and TISC agreed, that Canada's 'cover protect' period should remain synced with that of the U.S. and will similarly adopt a standard of expiration date plus 1 trading day.

Committee Updates

All CCMA committees continue to meet monthly. For the latest from each, please visit:

- **T+1 Steering Committee (T1SC)**
- **Operations Working Group (OWG)**
- **Mutual Funds Working Group (MFWG)**
- **Legal & Regulatory Working Group (LRWG)**
- **Communications & Education Working Group (CEWG)**

To learn more or join a CCMA committee, please email us at **info@ccma-acmc.ca**.

Tips & To-dos

- **What does your hour-by-hour trade-entry data tell you?** It says a lot about your work ahead: less if you enter trades earlier; more if you wait. Based on a CDS sampling of three marketplaces' trade volumes (>55% of daily volumes), CDS participants enter institutional trades throughout the business day – while the expected highpoint for entry was in the last hour of the trading day, this type of distribution supports the benefits of recommended intraday batches to allow earlier reconciliation, corrections and matching:

* *Eastern time, August 30, September 1 and 2*	**10:00***	**11:00**	**12:00**	**13:00**	**14:00**	**15:00**	**16:00**
Three-day average *	14%	18%	13%	10%	11%	11%	23%

The problem? As different firms have different systems and business models, averages are deceiving. One firm says it enters most trades in the last hour. ***What's your intraday trade entry distribution look like?***

Tools

- ***Reporting and Penalties:*** Requiring trade settlement fail rates to be reported and applying penalties for fails can be 'tools' to incent good, and discourage poor, behaviour. They've been recommended by a steering group operating under a senior-level industry committee established by the Bank of Canada. On November 7, the group issued a **consultation paper** proposing reporting and a fee for failing to settle Government of Canada bond and T-bill transactions, as well as best market practices for settlement (feedback due by December 9, 2022). Canadian government debt markets aren't experiencing significant fails, but the importance of this market warrants consideration of how to address fails should they increase. Other jurisdictions (**the U.S.**, Europe, Japan, and Australia) already have such disincentives in effect, and Europe's regime, as of February 1 of this year, applies penalties to equity market fails also. Why is this relevant? Canadian firms operating in government debt markets will get first-hand experience of what not settling on time means, starting with estimates of penalties that could apply, followed (if approved) by the application of fees. These are likely to ultimately be charged back to a client who causes delayed settlement.

To come

- **Dec. 2022:** CDS T+1 Business Requirements and Test Plan
- **Dec. 2022:** Hoped-for release (for 90-day comment) of proposed CSA NI 24-101 changes and related material.
- **Not soon enough…** AFME issued a **T+1 discussion paper** (Sept. 21, 2022) recommending more indepth analysis of T+1. While the same settlement cycles in Europe and North America would make some things easier for us, a European move to T+1 will likely occur several years post 2024.

From the Association for Financial Markets in Europe (AFME)

"… one might think that a migration from T+2 to T+1 would reduce the available post-trade processing time by **50%**, however, AFME estimates this [reduction] to be approximately **83%**, with settlements teams only having **2** core business hours between the end of the trading window and the start of the settlement window, compared to **12** core business hours in a T+2 environment.