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(Calgary Financial District, source: WikiCommons AceYYC)

Big news

On the Ides of December (not as dangerous as its better-known cousin the Ides of March), Canadian securities regulators issued eagerly-awaited releases:

- Canadian securities regulators outline steps to support transition to T+1
- National Instrument (NI) 24-101 – *Institutional Trade Matching and Settlement* (proposed changes)
- CSA Staff Notice 81-335 – *Investment Fund Settlement Cycles*

The same day, the CCMA published an announcement welcoming the documents as a concrete step towards a standard T+1 settlement cycle in North America. As expected, proposed NI 24-101 changes do not include an implementation date: the U.S. Securities and Exchange Commission (SEC) could require the change as early as Q1 2024 – a scant 14 months away – while U.S. and Canadian stakeholders continue calling for Q3 2024.

Debt and equities (NI 24-101): The CCMA expects to reply to the NI 24-101 request for comments, due St. Patrick's Day (March 17, 2023). For those not on a CCMA working group, but interested in these proposed changes, please e-mail info@ccma-acmc.ca.

Mutual Funds (Staff Notice 81-335): While exchange-traded and closed-end funds will move to T+1, conventional mutual funds may or may not change to the shorter cycle. CSA Staff Notice 81-335 states: "We are not proposing to amend sections 9.4 and 10.4 of National Instrument 81-102 *Investment Funds* (NI 81-102) at this time to shorten the settlement cycle [from T+2 to T+1] for primary distributions and redemptions of mutual fund securities. If the standard settlement cycle for listed securities moves from two days to one day in Canada, we are of the view that, where practicable, mutual funds should settle primary distributions and redemptions of their securities on T+1 voluntarily. We think it is important, however, to enable each mutual fund to have flexibility to determine whether a T+1 settlement cycle can work for them. Requiring a T+1 settlement cycle in NI 81-102 would not allow for such flexibility."

In Canada, major developments include the following:

- Creation of a Buyside Task Force (*see Committee Updates*)
- T+1 Asset List update due to content of CSA Staff Notice 81-335:
  - The standard mutual fund settlement date has changed from being 'under review' to reflecting no 'standard' at this time
  - Segregated funds, not subject to CSA rules and so not mentioned in the Staff Notice, settle through Fundserv on T+2 (only two currently settle on T+3); we're working with the Canadian Life and Health Insurance Association (CLHIA) to see if a standard is possible.

And our neighbours to the south? They've been busy too:

- T+1 Implementation Playbook (updated December 20, 2022) – the one material change relates to securities lending, with a new best-practice recall cut-off time set at 11:59 PM on trade date.
- SIFMA Letter to SEC Chair Gensler (December 20, 2022) SIFMA President Ken Bentsen, on behalf of SIFMA and its members, signed a 5-page letter to SEC Chair Gary Gensler re-urging a Q3 2024 T+1 transition date. The letter enumerates practical impediments to achieving the SEC's proposed T+1 implementation date (Q1 2024) given continued delays in finalizing the rule or at least set a transition timing.
- DTCC T+1 Test Approach: Detailed Testing Framework (January 18, 2023).

Which funds will move to T+1 is uncertain; the fact _some/many funds_ will adopt the shorter cycle is sure

- Mutual Funds Working Group Chair Russ White said Fundserv participants are discussing proposed processing rule changes to Fundserv Standards to support the shorter settlement cycle. This includes amending Fundserv Standards documentation to align with the T+1 changes for eligible products and expanding current in-cash transfer (ICT) functionality to facilitate (on the ICT sellside) funds moving to T+1.
- Fundserv requested fund company members to ask their leaders to review what funds may *not* be ready to move to T+1. The CCMA will work with Fundserv to be able to share publicly, closer to the transition date, which funds/products will/will not take the plunge and join the future standard T+1 cycle for debt and equities.

Committee Updates

NEW **Buyside Task Force:** The Operations Working Group has established a T+1 Buyside Task Force (BTF) to focus on institutional-trade-matching challenges. It is comprised of both operationally advanced asset managers/institutional investors and those who may not be able to get trades confirmed on the night of trade date, with the participation of the four main Canadian custodians and a few Sellside broker-dealers. BTF members will first meet on January 31, with Fran Daly, who had worked on the CDS Scheduler, contracted to act as BTF chair. The committee, which is to complete work by late spring, is expected to deliver an interim report in a few months.

Other CCMA committees continue to meet monthly, and their issue logs can be found on their committee webpages. 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

- Work for a buyside firm that still relies on fax or email for trade instructions? Talk to your custodian about possible automation options.
- A European Securities and Markets Authority (ESMA) study of 31 European jurisdictions found 2%-4% of bond trades, and 5%-10% (with a high of 12%) of equity trades, did not settle on schedule between 2018-2020. While penalties now applying make trade fails more costly across the Atlantic and will help bring down fail rates, think about whether their currently higher rate of settlement failure on a T+2 standard might affect fails in North America when Canada and the U.S. go to T+1.

Tools

- **Updated:** Industry processing timeline to achieve settlement by 4:00 p.m. ET on T+1
- **Updated:** Check out the most recent T+1 FAQs regarding mutual funds
- **November 30, 2022:** CDS Migration to T+1 business requirements – do these affect you?
- **December 22, 2022:** Plain-Language Summary of Confirmation Requirements

To come

- **February 2023:** CDS T+1 Test Plan release
- **February/March 2023:** Results of ValueExchange/AFMA/TMX-CDS/DTCC survey
- **Q1 2023:** SEC final T+1 rule with implementation date
- **Not soon enough?** The U.K. government launched the Accelerated Settlement (T+1) Taskforce last month, to report by December 2024, with initial findings due Dec. 2023

> "Different transition dates between the U.S. and Canada would require duplicative testing and processes across the industry. U.S and Canadian markets are significantly interconnected, and decoupling trade settlement activities would introduce another layer of complexity and opportunity for settlement fails. This would also introduce issues with dual-listed products, depository receipt conversions, exchange-traded fund creations and redemptions, conversions, buy-ins, and realignments."
>
> – Ken Bentsen, SIFMA President