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CCMA ACMC Canadian Capital Markets Association

LET'S TALK T+1

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

School's not yet out for the summer: homework assignments due first

We're asking all T+1 stakeholders – everyone on a CCMA committee, and others with an interest in the efficient functioning of Canada's capital markets – to do two things **by Friday, June 24:**

1. Please reply to the CCMA's **confidential** 7-minute **T+1 Awareness Survey** to help us assess the state of T+1 preparations across the industry; provide a baseline for measuring future progress; and help the CCMA plan further communications efforts. Have a chance to win a gift certificate of your choice!
2. Please review the industry **list of investment products** currently settling on T+2 that are expected to settle on a T+1 basis in 2024, sending any comments or questions to **info@ccma-acmc.ca**. This list has been reviewed by CCMA committee members, however, it is important to be as certain as possible about what investments will be moving to a shorter settlement cycle. Mutual funds settling on a T+2 basis are under review to determine which will move to the T+1 standard. As well, while exchange-traded funds (ETFs) will move to a standard T+1 settlement cycle with other products in Canada and the U.S. in 2024, the Canadian ETF Association is looking closely at how to adjust the create/redeem process to allow for the shorter cycle. The T+1 asset list is a 'living' document that will be updated as new assets are brought to the market, and others are removed when a product no longer meets its purpose. However, with the exception of funds, further changes are expected to be few.

In the news: Securities and Exchange Commission (SEC) T+1 rule changes

The SEC received 311 comment letters in answer to its T+1 proposals, which **are available** on the SEC website. The SEC proposed a 'compliance (transition) date' of 'by March 31, 2024.' Instead, the CCMA and other Canadian, American, and global associations have recommended a common three-day weekend, Labour Day 2024, as the best migration option. The SEC is expected to release a final date this Fall.

In addition to the **CCMA,** organizations supporting a Q3 or Labour Day 2024 implementation date are:

- Association of Global Custodians (AGC)
- Investment Company Institute (ICI)
- Investment Industry Association of Canada (IIAC)
- Managed Funds Association (MFA)
- Securities Industry & Financial Markets Association (SIFMA)
- TMX/Canadian Depository for Securities (CDS).

Spotlight on... compressing time

The most critical challenge for Canadian capital markets participants today remains Issue OWG-013 – better known by the catchy name of 'CDS Job Scheduler.' Earlier this year, industry members agreed that tweaking the current clearing and settlement process was not a realistic option for successfully achieving a T+1 settlement cycle without significantly increasing failed trades. The only reasonable solution is changing the deadlines/schedules to require and enable more trades to be reported, corrected, allocated, and confirmed/affirmed before overnight batch settlement begins on trade date (T).

Diagrams of today's T+2 exchange-trade process flow, as well as the current CDS 24-hour job scheduler and processing timeline, have been prepared and discussed, and show that exchange- and non-exchange-traded/institutional securities processing is interconnected. These timelines now are being refined to reflect the interplay between files, messages and other communications sent and received among dealers, investment managers, custodians, service bureaus, vendors, and exchanges. Each currently has its own set of cut-offs, although all ultimately must meet CDS job scheduler timelines (and, when applicable, corresponding U.S. ones).

In June, CCMA members will review updated processing diagrams and an updated job scheduler timing proposal that will allow for trades to be ready for settlement by the end of T, that is, either entered in matched status, or entered, reconciled, and confirmed before trading starts on T+1, ready for settlement later that day.

For exchange trades, the likely solution is facilitating reporting in intraday batches, or nearer to real time, to reduce the volume of trades left to process when batch processing starts at about 5:00 pm ET, currently running to 10:30 pm.

Did you know… ? CDS processing of exchange trades takes up to **5 hours** depending on volumes. Exchange trades numbering in the millions daily can double in periods of economic and market turmoil.

Exchange trades are only part of the equation: intraday batches won't solve the fact that only 30% of non-exchange/institutional trades are currently confirmed on T, a rate that will need to exceed 90% by dawn on T+1. Or else? Or much of the cost benefits of collateral savings will be missed failed trade rates will increase dramatically. Service bureaus, vendors and/or firms will need to find ways – new automation tools – to produce trade-related reports and/or files earlier than today to accelerate trade detail communication between the sellside, buyside, and custodian members.

Committee Updates

T+1 Steering Committee (T1SC): T1SC accepted the OWG recommendation to close issue OWG-007 – Corporate Actions as there is nothing material to do other than changing the date to one day closer to record date. CDS, transfer agents, and exchanges will need to make the necessary adjustments when declaring the ex-dividend date on or after which a security is traded without a previously declared dividend or distribution.

T1SC also approved the CEWG T+1 communications plan.

Mutual Funds Working Group (MFWG): The T+1 Mutual Fund Working Group has identified liquidity – the ability of fund managers to meet cash flow obligations on large net redemption days – as the primary issue at this time. Other issues being discussed include switches between funds of the same fund family, direct redemptions by the distributor (dealer) from the manufacturer (fund company), wire order switches, and client-name account transfer methods.

Operations Working Group (OWG): In addition to reviewing the CDS Job Scheduler and T+1 Asset List, OWG members discussed OWG-017 – Deposits of Physical Securities. While the number of physical securities in use is low and generally declining, regular deposits of physical securities take too long to get credited within CDS in the T+2 environment, and the alternative – 'instant deposits' – can be expensive. A rule might require physical certificates to be deposited before a trade can be executed to avoid such trades failing more often in the future, however, the issue requires further study.

Legal & Regulatory Working Group (LRWG): LRWG members provided input into the CCMA's response to the SEC. Members are waiting for input for the final SEC rule release, input from other CCMA working groups, and regulatory releases regarding a number of Canadian rules that will or may be affected by T+1.*

Communications & Education Working Group (CEWG): CEWG members are awaiting the outcome of the deliberations of the OWG, MFWG and LRWG.

* **Note:** Canadian Securities Administrators (CSA) staff are considering what amendments to recommend to national instruments to transition to T+1. As part of the Ontario Securities Commission's (OSC's) review of potential changes, OSC staff are preparing a cost-benefit analysis and, to this end, consulted with the CCMA T+1 Steering Committee in April.

Tips & To-dos

- Join a CCMA working group by visiting http://www.ccma-acmc.ca, and follow the CCMA on LinkedIn at https://ca.linkedin.com/company/canadian-capital-markets-association.

Tools

- Check out new answers on the CCMA's frequently asked questions (FAQs) page of the CCMA website.

QUOTE OF THE MONTH

"We need to think about not only normal business operations, but also periods of high volume: the solution is **automation, automation, automation**."

Tom Price, Managing Director – Technology, Operations and Business Continuity, SIFMA

To come

- **September 9, 2022:** The Investment Industry Regulatory Organization of Canada is planning a conference in Victoria, B.C. that will have the latest in T+1 news.