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November 1, 2016

To the Canadian Securities Administrators (CSA)

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Nova Scotia Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Office of the Attorney General, Prince Edward Island
Securities Commission of Newfoundland and Labrador
Superintendent of Securities, Yukon
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Nunavut

c/o

The Secretary
Ontario Securities Commission
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E-mail: comments@osc.gov.on.ca

Me Anne-Marie Beaudoin, Corporate Secretary
Autorité des marchés financiers
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Dear Sirs and Madams:

Re: Consultations on National Instrument (NI) 24-101 Regarding T+2 Settlement

On behalf of the members of the Canadian Capital Markets Association (CCMA), I am responding to the Canadian Securities Administrators' ("CSA's") *Proposed Amendments to NI 24-101 – Institutional Trade Matching and Settlement, Proposed Changes to Companion Policy 24-101 Institutional Trade Matching and Settlement* (collectively, "the T+2 Proposals"). CCMA participants also may be responding individually on particular matters that the T+2 Proposals raise.

We have not addressed the *CSA Consultation Paper 24-402 – Policy Considerations for Enhancing Settlement Discipline in a T+2 Settlement Cycle Environment* ("CP 24-402") that accompanied release of the T+2 Proposals. The CCMA's work is limited at this time to managing the transition to T+2 in tandem with the U.S. with an expected implementation date of September 5, 2017. While we agree that aspects of the clearing and settlement system could be improved in ways that would facilitate the transition, this is outside our T+2 project scope. We encourage, and expect that, associations and others with whom we are working on the T+2 project will provide feedback separately on CP 24-402. That said, we support, in principle, efforts to improve efficiency and reduce risk in Canada's clearing and settlement system.

Below is background information relating to the CCMA and T+2 settlement, with one recommendation for the transitional phase.

Background

The CCMA is a national, federally incorporated, not-for-profit organization, launched in 1999 to identify, analyze and recommend ways to meet the challenges and opportunities facing Canadian and international capital markets. Its mandate is to communicate, educate and help co-ordinate the different segments of the Canadian investment industry on projects spanning multiple parts of Canada's capital markets.

In 2015, the CCMA was tasked with co-ordinating the move to a T+2 settlement cycle as one such cross-industry initiative. To ensure a smooth and timely adoption of T+2 settlement at the same time as the U.S., the CCMA works through five committees. More than 400 committee members, comprised of people working for investment managers, mutual fund manufacturers, dealers, custodians, infrastructure, service bureaus, vendors, regulators and others, continue to discuss issues and solutions relating to the move to a T+2 settlement cycle. A further 160 individuals have signed up to receive CCMA T+2 newsletters or attended a CCMA T+2 event. More stakeholders are kept informed through the CCMA's partnering associations, service bureaus and vendors. Others access the CCMA's website, www.ccma-acmc.ca, for updates and tools. As well, CCMA staff participate in U.S. T2 meetings and we also have a seat at the UST2 Command Center.

Additionally, we appreciate efforts by the CSA and self-regulatory organizations to communicate with and encourage registrants to become and stay engaged in T+2 developments. We believe supporting the change to T+2 is good practice and critical for our capital markets and all of its stakeholders, including investors, issuers, registrants and the broader economy.

Current Matching Status

We believe that the discussions surrounding, and implementation of, NI 24-101 in 2007 is a very good example of industry/regulatory collaboration, one that relied on incentives (avoiding having to create and file exception Form 24-101F1s to acknowledge and explain missing the matching threshold at the noon on T+1 deadline) and suasion, rather than penalties, to achieve the desired results. Its success is demonstrated by the fact that even without a 'hard' rule, trade entry and matching data showed a significant increase in efficiency, that is, systems changes and procedures allowing for earlier data entry and matching in Canada, to the point that the Canadian industry is already capable of meeting a T+2 standard on average as evident in Table B-1 in the T+2 Proposals. Table B-1 shows an increase in trade matching volume rates between 2007 and December 2015 that represents:

- A doubling in percentages entered by midnight on T and approaching a quadrupling in matching by that time
- A 16% increase in the percentage of trades entered and an almost 50% increase in trades matched by noon on T+1 ready for settlement on T+2.

While trade entry and matching data vary from month to month and quarter to quarter, close to 95% of trades were reported by broker-dealers to CDS by noon on T+1 and 90% were matched by custodians for their investment manager clients in the last calendar quarter of 2015. These results are for all institutional trades, including non-North-American[1] ones, where time zones, variance in holidays, communications issues, currency differences, structural challenges, and global settlement cycle mismatches can cause delays.

[1] That is, outside Canada, the U.S., Mexico, the countries of Central America and the Caribbean, and Bermuda.

Proposed Amendments

We agree with the proposals to amend NI 24-101 (notably repealing paragraphs 3.1(2) and 3.3(2) of NI 24-101 that allowed non-North-American trades to match by no later than noon on T+2) to reflect relevant developments since 2007, as well as to bring consistency with other developed markets and to clarify certain existing NI 24-101 provisions (note that exchange-traded mutual funds (ETFs) are already included in the matching data CDS publishes).

We are pleased that the CSA supports the CCMA's recommendation to repeal the provisions that extend the institutional trade-matching deadline to noon on T+2 for non-North-American trades. We believe that a longer deadline could leave those waiting for a trade to settle on T+2 subject to greater risk of failed trades, and that removing the extended institutional trade matching deadline for non-North-American trades will allow trade matching parties to use the time between noon on T+1 and T+2 to address problems. We do not believe that it should be an onerous change for non-North-American clients as it is similar to what participants in the European Union, Australia, New Zealand and other countries are already accustomed to for T+2 settlement.

The CCMA concurs that there are no reasonable alternatives to the proposed changes and that a detailed cost-benefit analysis is not required as there is full Canadian industry agreement, we believe, that the change to T+2 settlement with the U.S. on September 5, 2017 is required due to the highly interconnected nature, and relative sizes, of the Canadian and U.S. capital markets.

The one area of concern relates to an issue arising from the effective date for the T+2 Proposals. The T+2 Proposals state that "If the Proposed Revisions are made following the comment process, all of the Proposed Revisions will be brought into force or, in respect of the Companion Policy, be adopted as of September 5, 2017." Subject to our comments below, we recommend that the T+2 Proposals be adopted on a date that is consistent with the T+2 effective date, which is expected to be September 5, 2017. However, while this works for the clearing and settlement of institutional trades, it adds unnecessary complexity and cost with respect to a reporting issue that ultimately should bring no risk.

Specifically, Part 4, Reporting by Registered Firms, in NI 24-401 (as amended) states that:

> "A registered firm must deliver Form 24-101F1 to the securities regulatory authority no later than 45 days after the end of a calendar quarter if:
> (a) less than 90 per cent of the DAP/RAP trades executed by or for the registered firm during the quarter matched within the time required in Part 3, or
> (b) the DAP/RAP trades executed by or for the registered firm during the quarter that matched within the time required in Part 3 represent less than 90 per cent of the aggregate value of the securities purchased and sold in those trades."

The issue arises because the agreed target implementation date – September 5, 2017 – falls mid-month and mid-quarter of a reporting period, for which an exception report might have to be prepared. As there is no incentive in slowing reporting or matching for one quarter because of the cost and effort implications of an increase in trade settlement fails, we believe that there should be no requirement for any registrant to make systems changes for a partial or split period. For example, industry members would have to implement:

1. The current system to provide clients with the noon on T+2 matching for non-North-American trades for the July 1 – September 4 period and

2. A system reporting change to eliminate the extension of non-North-American trades from the calculation for the September 5 – September 30 period and

3. A permanent change to the new standard, as of October 1, 2017, for all trades – North-American and otherwise – being matched to the 90% threshold by noon on T+1.

Any programming for the first two periods (1. and 2. above) would be throwaways and of no value to the smooth functioning of our capital markets. Indeed, the need to make the change in 1. for 60+ days, then remove the change 2. for a report of 26 days, before moving to the full quarterly reports going forward (change 3.) will slightly increase project risk and take resources away from T+2 tasks of greater importance.

Recommendation

As we do not believe that there is measurably greater or even any risk for investors or systemically from permitting transition relief for one exception reporting quarter, we believe that NI 24-101 should be amended, or that administrative relief allowing an exemption should be confirmed, so that firms should be permitted to implement exception reporting for effect the first full quarter that all trades must be matched as required by noon on T+1. That is, reporting for the third quarter (or corresponding quarter should the transition date be moved) would be on the same basis as currently.

As well as the foregoing, we recommend that the CSA permit optionally (rather than require) third-quarter 2017 adoption of reporting of all transactions by 12:00 p.m. on T+1, with no requirement for a matching party to provide an exception report and explanations/details if the registrant otherwise has been meeting the targets with a noon on T+2 threshold for non-North-American trades. This may help matching party clients of custodians to make better final implementation plans.

We are making a related transitional relief request to the Investment Industry Regulatory Organization of Canada (IIROC).

Conclusion

We believe that the move to a T+2 settlement cycle in Canada is proceeding well. The CCMA appreciates the support of CSA members throughout this transition. In particular, we appreciate the efforts by the CSA to help raise T+2 awareness with all registrants through its Staff Notices. Your efforts have helped us reach investment fund and portfolio managers ~~t~~hat are more numerous and geographically dispersed than stakeholders in other industry segments.

We would be pleased to answer any questions or elaborate on our views to you at your convenience.

Yours sincerely

[original signed by Keith Evans]

Cc: Mr. Answerd Ramcharan (IIROC)