

CSA Staff Notice 24-312

Preparing for the Implementation of T+2 Settlement

April 2, 2015

Introduction

Staff of the Canadian Securities Administrators (CSA Staff or we) are publishing this notice to increase awareness and summarize our views with respect to a Canadian industry move to shorten the standard settlement cycle for most trades in securities from three days after the date of trade (T+3) to two days after the date of trade (T+2).

In October 2014, most of the markets in Europe moved from a T+3 settlement cycle to T+2.¹ The securities industry in the United States, led by the U.S. Depository Trust & Clearing Corporation (DTCC) and supported by the Securities Industry and Financial Markets Association (SIFMA), has announced plans to shorten the settlement cycle to T+2 from the current T+3.² DTCC and SIFMA have established a broadly-based set of working groups with a mandate to report their findings in April, 2015. The plan is to recommend a T+2 implementation date at that time.

Feedback from industry consultations

During the Fall of 2014, in anticipation of the U.S. move to a shorter settlement cycle, staff from the Ontario Securities Commission (OSC) conducted a sample of industry interviews to gain a sense of the readiness of the Canadian industry to make the move to T+2. All the industry participants interviewed expressed the view that the Canadian industry must make the move to T+2 at the same time as the U.S. markets. Failure to do so would be detrimental to the Canadian capital markets due to the interconnectedness of our markets (i.e., the large volumes and value of cross-border trades and the large number of inter-listed securities). At the same time, there would appear to be little, or no, benefit to be gained by moving prior to the U.S.

There was a consensus from the interviews that the overall industry would be able to make a smooth transition to T+2 once the date has been set. No significant stumbling blocks were identified. We strongly support the need for the Canadian industry to migrate to T+2 on the same timetable as the U.S.

Canadian Capital Markets Association (CCMA)

Established in 2000, the CCMA was launched as a forum to identify and recommend ways for the industry to meet the challenges facing the Canadian capital markets, particularly in the post-trade clearing and settlement area. The CCMA's main focus until 2008 was to coordinate the

¹ Germany had been at a T+2 cycle for some time.

² See, for example, April 16, 2014 press release "SIFMA Supports Move to Shorten Settlement Cycle" at: http://www.sifma.org/newsroom/2014/sifma_supports_move_to_shorten_settlement_cycle/

industry's initiatives to meet the institutional trade matching (ITM) requirements of *Regulation 24-101 respecting Institutional Trade Matching and Settlement* (Regulation 24-101) by ensuring that a cross-section of representatives from the sell side, buy side, custodial, market infrastructure and service provider sectors were participating on various CCMA sub-committees and working groups. However, once Regulation 24-101 was implemented, the industry made a decision to decommission the active management of the CCMA.³

We support the need for a broadly based industry body to co-ordinate efforts to move to T+2. To be effective, we expect any industry-based body and its working groups to be widely representative of all stakeholders. Certain industry stakeholders have undertaken to facilitate reinvolving the CCMA as the industry body coordinating efforts in post-trade clearing and settlement, this time while the Canadian securities industry prepares the transition to T+2. In addition, the OSC interviews with industry participants identified several inefficiencies with current settlement processes, particularly where lack of industry standards appear to continue to impede the efficiency of ITM processes and practices. We will raise these matters with the industry body for its consideration.

Regulation 24-101

Regulation 24-101 came into force in 2007 and was developed largely to monitor and encourage more efficient and timely ITM processes and practices in Canada. Under Regulation 24-101, investment advisers and dealers are required to complete and file exception reports for institutional trades not meeting the matching threshold in Regulation 24-101 (90% of trades by value and volume matched by noon on T+1). Speedy and accurate ITM processes and practices are an essential pre-condition to avoiding settlement failures in a T+3 or, more importantly, T+2 settlement cycle environment.

A number of those interviewed by the OSC commented favourably on the impact that Regulation 24-101 has had as a catalyst for initiating action to improve the efficiency and timeliness of their ITM processes and practices. With the prospect of a T+2 settlement cycle becoming the global standard and being implemented in Canada, we believe that the trade-matching threshold should be revised to better facilitate readiness for T+2 settlement. We will be considering whether to recommend any amendments to Regulation 24-101. An option we may examine is whether a change to the matching target from 90% at noon on T+1 to 95% at midnight on T+1 may provide a better proxy for T+2 settlement readiness. We may also explore whether a *de minimis* provision in the exception reporting requirement – which would relieve market participants with minimal institutional trading activity from filing such reports – is necessary. These proposed changes may have the benefit of reducing the number of exception reports filed by entities, enabling a more accurate focus on those entities that are having operational challenges in meeting a T+2 settlement standard.

³ See CCMA News, Volume 30, August 2008, available at http://www.ccma-acmc.ca/en/files/CCMA%20News%20Volume%2030_online%20version.pdf

Questions

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