CSA/ACVM Canadian Securities Administrators | Autorités canadiennes en valeurs mobilières

CSA Staff Notice 81-335

Investment Fund Settlement Cycles

December 15, 2022

Executive Summary

Canadian Securities Administrators staff (**CSA staff** or **we**) are publishing this notice to set out our views about amending securities laws to require settlement one day after the date of the trade (**T+1**) for mutual funds. Concurrent with this Notice, the CSA are publishing for comment draft amendments (the **Regulation 24-101 Amendments**) to *Regulation 24-101 respecting Institutional Trade Matching and Settlements* (**Regulation 24-101**). Among other things, the Regulation 24-101 Amendments focus on facilitating the shortening of the standard settlement cycle for equity and long-term debt market trades in Canada from two days after the date of a trade (**T+2**) to T+1.

The move to a T+1 settlement cycle is expected to occur at the same time as the markets in the United States move to a T+1 settlement cycle. The Regulation 24-101 Amendments focus on facilitating procedures and processes to allow for alignment with the U.S. settlement cycle. Following the changeover, it is expected that secondary market trading in exchange-listed investment funds will also settle on T+1.

We are not proposing to amend sections 9.4 and 10.4 of *Regulation 81-102 respecting Investment Funds* (**Regulation 81-102**) at this time to shorten the settlement cycle 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 Regulation 81-102 would not allow for such flexibility.

Substance and Purpose

Moving the settlement of trades in mutual fund securities to T+1 requires consideration of different factors, as the settlement mechanics for mutual fund primary distributions and redemptions differs from those for equity and long-term debt. For example, the purchase or redemption of securities directly with a fund can raise issues related to the fund's liquidity and directly impact the portfolio management of the fund since portfolio assets may need to be purchased or sold. Mutual funds with significant holdings of securities in jurisdictions with longer settlement cycles (e.g., Europe and Asia) may experience a settlement mismatch if T+1 settlement were to be mandated for all mutual fund securities in Canada.

CSA staff are of the view that many Canadian mutual funds would be able to settle primary distributions and redemptions of their securities on T+1 if the standard settlement for portfolio assets held by the fund move to T+1 in Canada. In our view, moving to T+1 would allow the mutual fund industry to improve investor and dealer cashflow management, align with U.S. settlement cycles, and allow mutual funds to remain competitive from a settlement perspective.

However, we recognize that moving to T+1 settlement would present operational difficulties for funds that have a significant portion of their portfolio assets that settle at T+2 or longer and so the CSA is not proposing amendments to sections 9.4 and 10.4 of Regulation 81-102 to mandate a T+1 settlement cycle for all mutual fund securities at this time.

Questions

Please refer your questions to any of the following:

Autorité des marchés financiers
Louis-Martin Ouellet
Coordinator, Investment Funds Oversight
514 395-0337, ext. 4496
louis-martin.ouellet@lautorite.qc.ca

British Columbia Securities Commission
Noreen Bent
Chief, Corporate Finance Legal Services
604 899-6741
Nbent@bcsc.bc.ca

Alberta Securities Commission
Chad Conrad
Senior Legal Counsel, Corporate Finance
403 297-4295
chad.conrad@asc.ca

Financial and Consumer Affairs Authority of Saskatchewan
Heather Kuchuran
Director, Corporate Finance
306 787-1009
heather.kuchuran@gov.sk.ca

Manitoba Securities Commission
Patrick Weeks
Deputy Director, Corporate Finance
204 945-3326
Patrick.weeks@gov.mb.ca

Ontario Securities Commission
Michael Tang
Senior Legal Counsel, Investment Funds and Structured Products Branch
416 593-2330
mtang@osc.gov.on.ca

Financial and Consumer Services Commission of New Brunswick
Ella-Jane Loomis
Senior Legal Counsel, Securities
506 453-6591
ella-jane.loomis@fcnb.ca

Nova Scotia Securities Commission
Abel Lazarus
Director, Corporate Finance
902 424-6859
abel.lazarus@novascotia.ca