

## Notice and Request for Comment

### Adoption of a T+2 Settlement Cycle for Conventional Mutual Funds

#### Draft Regulation to amend Regulation 81-102 respecting Investment Funds

April 27, 2017

#### Introduction

The Canadian Securities Administrators, other than the British Columbia Securities Commission<sup>1</sup>, (the **CSA** or **we**) are publishing for a 90-day comment period Draft *Regulation to amend Regulation 81-102 respecting Investment Funds* (**Regulation 81-102**) and a draft consequential amendment to *Regulation 81-104 respecting Commodity Pools* (**Regulation 81-104**) to shorten the standard settlement cycle for conventional mutual funds<sup>2</sup> from three days after the date of a trade (**T+3**) to two days after the date of a trade (**T+2**) (the **Draft Amendments**).

We are also providing guidance to conventional mutual funds regarding their expected adoption of a T+2 settlement cycle in light of the adoption of a T+2 settlement cycle in equity and long-term debt markets.

#### Substance and Purpose

On September 5, 2017, markets in the United States are expected to move to a T+2 settlement cycle. As it is in the public interest for Canadian market participants to match U.S. settlement cycles, the CSA is publishing, concurrently with this Notice, a Notice of Amendments that would harmonize settlement cycles to T+2 in Canada for equity and long-term debt markets and amend *Regulation 24-101 respecting Institutional Trade Matching and Settlement* (**Regulation 24-101**) (the **Regulation 24-101 Amendments**) to coincide with the adoption of a T+2 settlement cycle in the United States. Please see CSA Notice *Regulation to amend Regulation 24-101 respecting Institutional Trade Matching and Settlement and Amendments to Policy Statement to Regulation 24-101 respecting Institutional Trade Matching and Settlement*.

A trade in a security of a conventional mutual fund is not subject to Regulation 24-101. However, the underlying equity and long-term debt securities owned by conventional mutual funds are subject to Regulation 24-101 and would settle at T+2.

Under Regulation 81-102, conventional mutual fund settlement must follow the requirements below (the **Current Requirements**):

- Cash received by a dealer or principal distributor for payment of a mutual fund security must be forwarded to the order receipt office of the mutual fund *as soon as practicable* and in any event no later than the third business day after the pricing date (subsection 9.4(1) of Regulation 81-102);

<sup>1</sup> While the British Columbia Securities Commission is not an authority publishing the Proposed Amendments under this Notice, it anticipates that, subject to receiving the necessary approvals, it will, in the near future, publish for comment draft amendments that will be consistent with the Draft Amendments described in this Notice.

<sup>2</sup> A conventional mutual fund is a mutual fund that offers securities in continuous distribution under a simplified prospectus in accordance with *Regulation 81-101 respecting Mutual Fund Prospectus Disclosure*.

- Payment of the issue price of a security must be made on or before the third business day after the pricing date (subsection 9.4(2) of Regulation 81-102);
- In the event that payment is not received by the third business day after the pricing date of the security, the mutual fund must redeem the securities to which the purchase order pertains as if it had received an order for the redemption of the securities on the fourth business day after the pricing date or on the date the mutual fund first knows that the method of payment will not be honoured (subsection 9.4(4) of Regulation 81-102); and
- A mutual fund must pay the redemption proceeds for securities once a redemption order has been received within three business days after the date of calculation of the net asset value per security used in establishing the redemption price (subsection 10.4(1) of Regulation 81-102).

We note that this language is broad enough to permit conventional mutual funds to adopt a T+2 settlement cycle.

### **Guidance on the transition to a T+2 settlement cycle**

Given that the standard settlement cycle for equity and long-term debt market trades in Canada is being shortened from T+3 to T+2, we are of the view that the requirement for a dealer or principal distributor to forward the cash or securities received for payment of the issue price of securities of a mutual fund to the mutual fund as soon as practicable would require conventional mutual funds to adopt a T+2 settlement cycle on the coming into force of the Regulation 24-101 Amendments, currently expected on September 5, 2017.

Additionally, with the Draft Amendments, we wish to codify the expectation that conventional mutual funds will settle on T+2 to remove any possibility of confusion.

### **Summary of the Draft Amendments**

The Draft Amendments amend sections 9.4 and 10.4 of Regulation 81-102 so as to remove references to a T+3 settlement cycle and replace them with references to a T+2 settlement cycle. The Draft Amendments also amend paragraph 9.4(4)(a) of Regulation 81-102 so as to require a mutual fund, in the case where payment of the issue price of the securities has not been received, to redeem the securities on the third business day after the pricing date, rather than on the fourth. Furthermore, a consequential amendment will be made to section 6.3 of Regulation 81-104 to harmonize it with the new proposed wording of section 10.4 of Regulation 81-102.

### **Transition**

Subject to the rule approval process, we anticipate publishing final rules aimed at implementing the Draft Amendments in the late Summer of 2017 (**Publication Date**). We anticipate the Draft Amendments will be proclaimed into force expeditiously after the Publication Date (**In Force Date**). After the In Force Date, the T+3 settlement cycle for conventional mutual funds will be replaced by a T+2 settlement cycle.

### **Local Matters**

Certain jurisdictions are publishing other information required by local securities legislation with this Notice.

### **Deadline for Comments**

Please submit your comments to the Draft Amendments, in writing, on or before July 26, 2017. If you are not sending your comments by email, please send a CD containing the submissions (in Microsoft Word format).

## **Where to Send Your Comments**

Address your submission to the CSA as follows:

Alberta Securities Commission  
Financial and Consumer Affairs Authority of Saskatchewan  
Manitoba Securities Commission  
Ontario Securities Commission  
Autorité des marchés financiers  
Financial and Consumer Services Commission (New Brunswick)  
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island  
Nova Scotia Securities Commission  
Securities Commission of Newfoundland and Labrador  
Superintendent of Securities, Northwest Territories  
Superintendent of Securities, Yukon  
Superintendent of Securities, Nunavut

Please send your comments only to the addresses listed below. Your comments will be forwarded to the other CSA member jurisdictions.

Madame Anne-Marie Beaudoin  
Corporate Secretary  
Autorité des marchés financiers  
800, rue du square Victoria, 22e étage  
C.P. 246, tour de la Bourse  
Montréal, Québec H4Z 1G3  
Fax: 514 864-6381  
[consultation-en-cours@lautorite.qc.ca](mailto:consultation-en-cours@lautorite.qc.ca)

The Secretary  
Ontario Securities Commission  
20 Queen Street West  
22<sup>nd</sup> Floor  
Toronto, Ontario M5H 3S8  
Fax: 416 593-2318  
[comments@osc.gov.on.ca](mailto:comments@osc.gov.on.ca)

We would like your input on the Draft Amendments. Please include a prominent reference to the subject matter of your comments. For example, please include a subject line similar to the following: "RE: Mutual Fund T+2 Settlement Amendments".

### **Comments Received will be Publicly Available**

Please note that we cannot keep submissions confidential because securities legislation in certain provinces requires publication of a summary of written comments received during the comment period. In this context, you should be aware that some information which is personal to you, such as your email and address, may appear on certain CSA web sites. It is important that you state on whose behalf you are making the submission.

All comments will be posted on the Ontario Securities Commission web site at [www.osc.gov.on.ca](http://www.osc.gov.on.ca) and on the Autorité des marchés financiers web site at [www.lautorite.qc.ca](http://www.lautorite.qc.ca).

## Questions

Please refer your questions to any of the following CSA staff:

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## Where to find more information

The text of the Draft Amendments is published with this Notice and is also available on websites of CSA members, including:

[www.albertasecurities.com](http://www.albertasecurities.com)  
[www.fcaa.gov.sk.ca](http://www.fcaa.gov.sk.ca)  
[www.mbsecurities.ca](http://www.mbsecurities.ca)  
[www.osc.gov.on.ca](http://www.osc.gov.on.ca)  
[www.lautorite.qc.ca](http://www.lautorite.qc.ca)  
[www.fcnb.ca](http://www.fcnb.ca)  
[nssc.novascotia.ca](http://nssc.novascotia.ca)