CSA/ACVM Canadian Securities Administrators Autorités canadiennes en valeurs mobilières

# CSA Notice and Request for Comment

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

**October 19, 2023**

## Introduction

The Canadian Securities Administrators (**CSA** or **we**) are proposing amendments to facilitate a voluntary decision by a mutual fund to shorten the settlement cycle for purchases and redemptions of its securities from two days after the date of a trade (**T+2**) to one day after the date of a trade (**T+1**) in anticipation of a reduction of the settlement cycle for equity and long-term debt market trades in Canada to T+1.

We are publishing for a 90-day comment period draft amendments (the **Draft Amendments**) to *Regulation 81-102 respecting Investment Funds* (**Regulation 81-102**).

The text of the Draft Amendments is published with this Notice and will also be available on the websites of the following CSA jurisdictions:

www.lautorite.qc.ca
www.asc.ca
www.bcsc.bc.ca
nssc.novascotia.ca
www.fcnb.ca
www.osc.gov.on.ca
www.fcaa.gov.sk.ca
www.msc.gov.mb.ca

## Summary, Substance and Purpose

The purpose of the Draft Amendments is to accommodate a range of settlement cycles and particularly for those mutual funds that voluntarily decide to shorten the settlement cycle for purchases and redemptions of their securities from T+2 to T+1 when the underlying assets held by the fund move to a T+1 settlement cycle.

The Draft Amendments introduce drafting changes to clarify that payments must be made no later than the reference settlement date of the purchase order. The reference settlement date of the purchase order is the business day determined by the mutual fund and disclosed in writing to the principal distributor, the participating dealer, or the person providing services to the principal distributor or participating dealer, which must be on or before the second business day after the pricing date.

The Draft Amendments also introduce a change to paragraph 9.4(4)(a) of Regulation 81-102 to require a mutual fund that voluntarily decides to shorten the settlement cycle for purchase or redemption of its securities from T+2 to T+1 to redeem its securities for non-payment on the next business day after the reference settlement date of the purchase order, which would be on T+2 rather than T+3 as currently required.

**Background**

On December 15, 2022, the CSA published for comment draft amendments (the **Regulation 24-101 Amendments**) to *Regulation 24-101 respecting Institutional Trade Matching and Settlements*. 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 T+2 to T+1.

Concurrent with the publication of the Regulation 24-101 Amendments, CSA staff published CSA Staff Notice 81-335 *Investment Fund Settlement Cycles* (**Staff Notice 81-335**). Staff Notice 81-335 explained that CSA staff did not propose to amend sections 9.4 and 10.4 of Regulation 81-102 to mandate the shortening of the settlement cycle for primary distributions and redemptions of mutual fund securities from T+2 to T+1. However, it was CSA staff's view that mutual funds should settle primary distributions and redemptions of their securities on T+1 voluntarily if the standard settlement cycle for listed securities moves from two days to one day in Canada.

The comment period for the Regulation 24-101 Amendments closed on March 17, 2023, and we received one comment letter regarding Staff Notice 81-335. The commenter stated that, to facilitate a voluntary decision by a mutual fund to shorten the settlement cycle for purchase or redemption of its securities from T+2 to T+1, a technical amendment to the forced redemption for non-payment requirement in paragraph 9.4(4)(a) of Regulation 81-102 should be made. The commenter noted that the intent of paragraph 9.4(4)(a) of Regulation 81-102 is that a mutual fund must redeem its securities that were issued to a purchaser if the purchaser fails to pay for those securities the day after settlement. Because settlement is currently required on T+2, current paragraph 9.4(4)(a) of Regulation 81-102 effectively mandates redemption three days after the date of the trade (**T+3**). If a mutual fund voluntarily shortens its settlement cycle for a sale of its securities to T+1, the mutual fund should be required to redeem for non-payment on the date after settlement, which would be on T+2 rather than T+3.

Without the Draft Amendments, current paragraph 9.4(4)(a) of Regulation 81-102 would make a voluntary movement to a T+1 settlement cycle by a mutual fund administratively challenging because it could not redeem its securities for non-payment until two days after the settlement date.

**How to Provide Your Comments**

Please provide your comments in writing by **January 17, 2024**.

We cannot keep submissions confidential because securities legislation requires publication of a summary of written comments received during the comment period. All comments received will be posted on the website of each of the Alberta Securities Commission at www.asc.ca, the Ontario Securities Commission at www.osc.ca and the Autorité des marchés financiers at www.lautorite.qc.ca. Therefore, you should not include personal information directly in comments to be published. It is important you state on whose behalf you are making the submissions.

Thank you in advance for your comments.
Please address your submission to all of the CSA as follows:

British Columbia Securities Commission
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
Office of the Superintendent of Securities, Service NL
Northwest Territories Office of the Superintendent of Securities
Office of the Yukon Superintendent of Securities
Superintendent of Securities, Nunavut

Please send your comments only to the following addresses. Your comments will be forwarded to the remaining jurisdictions:

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Corporate Secretary and Executive Director
Legal Affairs
Autorité des marchés financiers
Place de la Cité, tour Cominar
2640, boulevard Laurier, bureau 400
Québec (Québec) G1V 5C1
Fax: 514 864-8381
Email: consultation-en-cours@lautorite.qc.ca

The Secretary
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20 Queen Street West
22nd Floor, Box 55
Toronto, Ontario
M5H 3S8
Fax: 416 593-2318
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**Questions**

Please refer your questions to any of the following:

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