



# Shortening the Settlement Cycle: Final CSA Amendments to NI 24-101

Changes Include the Harmonization of the T+1 Institutional Trade Matching and Settlement Deadline

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The Canadian Securities Administrators (CSA) announced on April 27, 2017 that they are adopting amendments to National Instrument (NI) 24-101 “Institutional Trade Matching and Settlement” and to its companion policy.

The CSA notes that some of its revisions are being made in anticipation of the upcoming shortened settlement cycle standard for equity and long-term debt market trades in Canada, which will be moving to two days after the date of a trade (T+2) from three days after the date of a trade (T+3). Canada’s move to a T+2 settlement cycle is expected to occur on September 5, 2017, in alignment with the timelines of the U.S. markets.

CIBC Mellon is playing an active role in the industry in preparation of Canada’s move to a shortened T+2 settlement cycle and the company is represented on all of the Canadian Capital Markets Association’s (CCMA) working groups and committees. CIBC Mellon also participates in the CIBC T+2 working group and is plugged into the U.S. BNY Mellon Depository Trust & Clearing Corporation (DTCC) working group.

The company is currently testing relevant scenarios to prepare for service continuity under a T+2 settlement cycle standard by September 5, 2017, and to make certain that CIBC Mellon’s technology and operational procedures are adequately updated.

To learn more about Canada’s move to T+2 and CIBC Mellon’s associated efforts, refer to our paper, [“Preparing for Canada’s Move to a T+2 Settlement Cycle.”](#)

## **NON-NORTH-AMERICAN TRADES TO BE MATCHED ON T+1**

The CSA is repealing the provisions of NI 24-101 that extend the institutional trade matching (ITM) deadline to noon on T+2 where a delivery-against-payment (DAP) and receipt-against-payment (RAP) trade results from an order to buy or sell securities received from an institutional investor whose investment decisions or settlement instructions are usually made in and communicated from a geographical region outside the North American region (non-North-American trades).

The CSA notes that an extended deadline of noon on T+2 for non-North-American trades leaves insufficient time to solve problems and avoid failed trades; as such, parties need to match earlier on T+1.

## **REVISIONS TO CLARIFY OR MODERNIZE NI 24-101: APPLICATION TO EXCHANGE-TRADED FUNDS**

Currently, NI 24-101 does not apply to a trade in a security of a mutual fund to which NI 81-102 “Investment Funds” applies. As exchange-traded funds (ETFs) are mutual funds and therefore subject to NI 81-102, ETF securities are not currently subject to NI 24-101.

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Amendments to the instrument will narrow the scope of the current exception for investment funds with the CSA's aim to clarify that DAP/RAP trades in ETF securities, that are bought and sold like any other stock on the secondary market and settled through the facilities of the Canadian Depository for Securities (CDS), are to be included in the exception reports under NI 24-101 (form 24-101F1) by registered firms as "equity" DAP/RAP trades, and not as "debt" DAP/RAP trades.

#### **EFFECTIVE DATE OF REVISIONS AND TRANSITIONAL PROVISIONS**

The CSA expects the amendments to NI 24-101 ITM and its companion policy will come into force on September 5, 2017 in all CSA jurisdictions, subject to obtaining government ministerial approvals in certain CSA jurisdictions. This date is in alignment with the planned move of North American markets to a T+2 settlement cycle on September 5, 2017.

#### **DEPENDENCIES ON THE U.S. TRANSITION TO A T+2 SETTLEMENT CYCLE**

While the CSA has specified September 5, 2017 as the earliest date when the revisions will take effect, the amending instrument contains language that will allow for the effective date to be extended in order to match a potential delay of the U.S. transition to a T+2 settlement cycle, in the event that the U.S. target-compliance date is extended. Should that situation occur, for transparency purposes, the CSA jurisdictions expect to publish a subsequent notice to highlight such a date extension.

#### **TRANSITIONAL PROVISIONS FOR DELIVERY OF EXCEPTION REPORTING FOR CALENDAR QUARTER, INCLUDING THE EFFECTIVE DATE**

The CSA has included specific transitional provisions to permit a registered firm to calculate its relevant ITM percentages for determining whether or not it needs to file an exception report for the calendar quarter during which the revisions are implemented, and, where applicable, for completing the report, as if the revisions do not come into force until the beginning of the following calendar quarter.

Therefore, if the effective date is on September 5, 2017, registered firms would be entitled to continue to use their current methodologies for calculating whether they meet the 90 per cent ITM threshold for the entire calendar quarter ending September 30, 2017.

To the extent that a firm currently differentiates between North American DAP/RAP trades and non-North-American DAP/RAP trades, or between ETF DAP/RAP trades and other equity DAP/RAP trades, for the purposes of its exception reports, it would not need to change mid-quarter its methodology for completing the report for the calendar quarter ending September 30, 2017.

#### **DETAILS ON FORM 24-101F1**

The revised NI 24-101 companion policy encourages registered firms to complete form 24-101F1 through the NI 24-101 online portal on the CSA website. It is important to note that the CSA will not modify the online version of form 24-101F1 to reflect the relevant changes made to the form in the revisions until after 45 days following the end of the calendar quarter during which the revisions are implemented. Therefore, registered firms are encouraged to file their online exception reports for the calendar quarter during which the revisions are implemented on the current version of the form, and not the revised form.

#### **REVISIONS TO CUSTODIAN DEADLINES**

The move to a T+2 settlement cycle is expected to occur on September 5, 2017 in Canada. As a direct result of this new settlement standard, and the CSA's revisions to NI 24-101 "Institutional Trade Matching and Settlement," CIBC Mellon clients are reminded of the necessary changes to its trade notification deadlines, outlined below. These modified deadlines are necessary to allow for sufficient time to solve potential issues and avoid failed trades under a T+2 settlement cycle standard.



#### REVISED CIBC MELLON TRADE NOTIFICATIONS DEADLINES UNDER T+2 ENVIRONMENT

All Investors (Equities, Bonds, ETF Securities)

Settlement Date (SD)-1 10:30 a.m. ET

#### CURRENT CIBC MELLON TRADE NOTIFICATIONS DEADLINES UNDER T+3 ENVIRONMENT

North American Investors (Equities and Bonds)

SD-2 10:30 a.m. ET

Non-North-American Investors (Equities and Bonds)

SD-1 10:30 a.m. ET

Note: the 10:30 a.m. ET deadline is for straight-through processing (STP) instructions only.

# CIBC Mellon is currently testing relevant scenarios to prepare for service continuity under a T+2 settlement cycle standard by September 5, 2017, and to make certain that its technology and operational procedures are adequately updated.

## For More Information

For further details, view the [CSA's notice of amendments](#) to NI 24-101 and to its companion policy. For more information on Canada's move to a T+2 settlement cycle, see our white paper, "[Preparing for Canada's Move to a T+2 Settlement Cycle](#)." To learn more or discuss any questions related to CIBC Mellon's preparations for the shortened settlement cycle, contact your Service Director or Account Manager.



## About CIBC Mellon

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