Preparing for Canada's move to a T+2 Settlement Cycle

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This article was originally published in April 2016. It has been updated with relevant details as they have been finalized by relevant industry bodies since that time.

As global markets continue to move – or have already moved – to a T+2 settlement cycle (two days following the trade date, or "T"), Canadian market stakeholders and participants are likewise preparing to shorten the settlement cycle from the current T+3 standard to T+2. Given the substantial volume of cross-border trading activity between Canada and the United States, Canadian regulators and the Canadian Capital Markets Association (CCMA) have aligned the Canadian market timelines to those of the U.S. North American markets and will be moving on September 5, 2017.

Canada has been operating on a T+3 settlement cycle since 1995, when both Canada and the U.S. shortened the settlement cycle for most debt and equities from T+5. Shortening the settlement cycle produces a number of benefits, including mitigating operational and systemic risk by reducing exposure between the parties to a trade, between the counterparties and central clearinghouses, and in terms of harmonization among various markets.

WHY NOW? T+2 GLOBALLY

Across the globe, markets have been making the move to T+2 – Asia-Pacific and Europe have already made the move and Australia and New Zealand successfully converted on March 7, 2016.[1] Mexico also announced that it is planning to move to T+2 on September 5, 2017. Joining other global markets in a shorter trade cycle will support a more efficient marketplace with reduced operational risk. As investors' horizons and investment activity become increasingly global, opportunities to simplify and unify cross-border trading help to support efficient markets and position investors in Canada to navigate the environment.

IMPACTED SECURITIES WILL SETTLE ON T+2

We encourage all participants to review the finalized list of impacted security types, which is available on CCMA website.

T+2 PREPAREDNESS

CIBC Mellon continues to prepare for the move to a shortened settlement cycle through its participation in the Canadian Capital Markets Association (CCMA) industry working groups. We are also actively engaged with the BNY Mellon project team on its efforts to prepare for the change in the U.S. Additionally, we have formed an internal steering committee comprising senior members of our operations, technology and risk management teams in an effort to monitor this project closely and adopt the new cycle successfully.

Our systems are currently settlement cycle neutral, which means our custody platform will only undergo minor system changes. We are in the process of completing our internal technology checks and are preparing to test these updates with the Canadian Depository for Securities (CDS) in April 2017.

CIBC MELLON

Of the range of benefits of the shortened cycle, arguably the most important are the certainty, safety and increased soundness of Canadian capital markets for participants. T+2 will promote reduced counterparty risk, reduced margin requirements, decreased clearing capital requirements and increased global settlement harmonization. The Canadian and U.S. market structure will also work to improve safety and efficiency for investors.

We are also taking steps with the relevant market utilities and entities to affirm that our technology and operational procedures are adequately updated. Refer to the testing schedule and details on page four for more information.

KEY CONSIDERATIONS FOR MARKET PARTICIPANTS

The CCMA OWG has analyzed and identified what they consider to be high priority operational issues and processes for corporations, Canadian investors and investors into Canada regarding the move to T+2. These focus areas include:

- National Instrument (NI) 24–101 rule amendments
- Holiday processing
- Corporate Actions (ex and record date calculations, due bill processing, etc.)
- Industry testing
- Buy-side client readiness

Firms preparing for T+2 may want to consider the adjustments and changes that may be necessary for their relevant securities system(s). Securities firms may decide to take into consideration whether they need to:

- Review downstream and upstream processes, reports, files and databases
- Make any changes to prospectus or other agreements
- Make any changes to trading platforms
- Make any changes to portfolio valuation systems

Firms are not only responsible for satisfying themselves regarding their own systems, but to take steps to confirm that their linkages with other stakeholders in the settlement chain are prepared for the move.

CIBC MELLON AND T+2

CIBC Mellon is playing an active role in the readiness and consultations taking place across the industry leading up to the 2017 implementation. Our company is represented on the CCMA's T+2 Steering Committee (T2SC), T+2 Operations Working Group (OWG), and the T+2 Communications and Education Working Group (CEWG). CIBC Mellon also participates on the CIBC T+2 working group and is plugged into the U.S. BNY Mellon DTCC working group.

CIBC Mellon's custody system is currently settling trading activities across a wide range of settlement cycles in support of clients' cross-border activities – with cycles ranging from same-day settlement on T through T+2 and T+3, to T+5 and beyond. CIBC Mellon is ready and able to handle T+2 settlement in Canada.

We bring considerable settlement experience – in addition to our daily settlement activities, a number of CIBC Mellon employees have the experience of having been active participants during Canada's previous, successful shortening of the settlement cycle to T+3 from T+5 in 1995. We will continue to provide clients updates as they relate to the T+2 settlement in Canada and CIBC Mellon's supportive efforts.

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BENEFITS TO CLIENTS AND SECURITIES FIRMS

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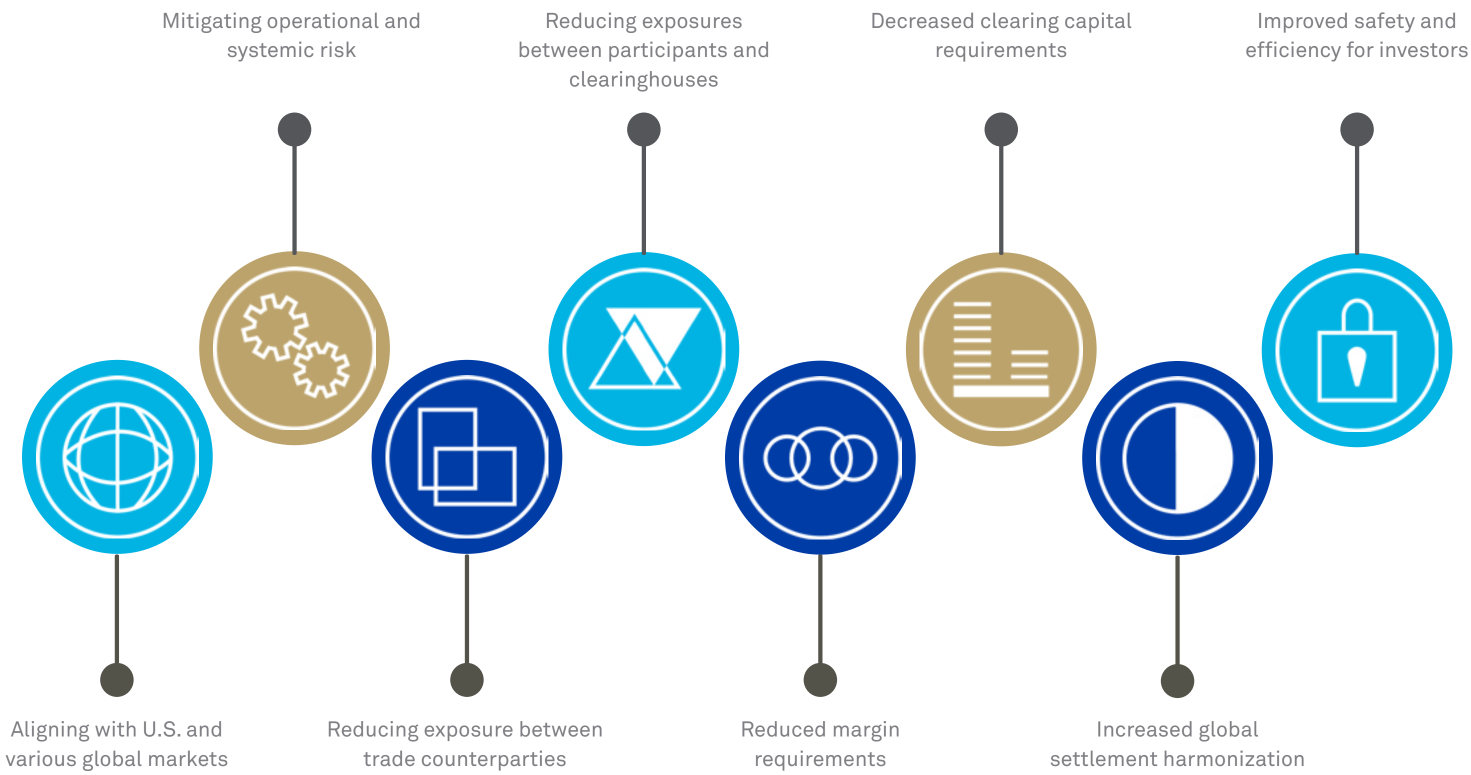
In summary, the benefits to market participants active in Canada include:



T+2 TIMELINE – CANADA / U.S. TESTING SCHEDULE

Organization	Dates
• Canadian Depository for Securities (CDS)	• April 13, 2017 to May 26, 2017
• Fundserv	• March 21, 2017 to September 1, 2017
• DTCC	• February 13, 2017 to August 25, 2017

Questions

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.

CIBC Mellon's systems are currently settlement cycle neutral, which means our custody platform will only undergo minor system changes. CIBC Mellon will be participating in CDS and Fundserv industry testing and BNY Mellon is participating in DTCC industry testing. CIBC Mellon is in the process of completing our internal technology checks and the company is preparing to test these updates with the Canadian Depository for Securities (CDS) in April/May 2017. Fundserv's ESG27 test environment became available for testing on March 21, 2017 and CIBC Mellon is undertaking testing in advance of Fundserv's v27 annual release. CIBC Mellon is also preparing for Fundserv testing in June 2017. CIBC Mellon will continue to test all relevant scenarios to prepare for service continuity by September 5, 2017, and to make certain that our technology and operational procedures are adequately updated.

About CIBC Mellon

CIBC Mellon is a Canadian company exclusively focused on the investment servicing needs of Canadian institutional investors and international institutional investors into Canada. Founded in 1996, CIBC Mellon is 50-50 jointly owned by The Bank of New York Mellon (BNY Mellon) and Canadian Imperial Bank of Commerce (CIBC). CIBC Mellon's investment servicing solutions for institutions and corporations are provided in close collaboration with our parent companies, and include custody, multicurrency accounting, fund administration, recordkeeping, pension services, exchange-traded fund services, securities lending services, foreign exchange processing and settlement, and treasury services. As at December 31, 2016, CIBC Mellon had more than C$1.7 trillion of assets under administration on behalf of banks, pension funds, investment funds, corporations, governments, insurance companies, foreign insurance trusts, foundations and global financial institutions whose clients invest in Canada. CIBC Mellon is part of the BNY Mellon network, which as at December 31, 2016 had US$29.9 trillion in assets under custody and/or administration. CIBC Mellon is a licensed user of the CIBC trade-mark and certain BNY Mellon trade-marks, is the corporate brand of CIBC Mellon Global Securities Services Company and CIBC Mellon Trust Company, and may be used as a generic term to refer to either or both companies.

For more information visit www.cibcmellon.com or follow us on Twitter @CIBCMellon.

Notes

1 http://www.asx.com.au/services/t2.htm
2 http://www.ust2.com/pdfs/T2-ISC-recommends-shorter-settlement-030716.pdf
3 Federal Bonds which currently trade on a T+1 basis (e.g. those with a shorter maturity date) are expected to continue to trade on the same T+1 settlement basis following the conversion to T+2
4 https://www.cds.ca/resource/en/174

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