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Update on T+1 Settlement Efforts in the U.S.: Canadian Outlook and Considerations

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As Director of Product Management, Lou is part of a team responsible for developing products and services that meet the sophisticated and evolving needs of CIBC Mellon's clients.

“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+1 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.

Canadian and U.S. market stakeholders including U.S. and Canadian central depositories, the Canadian Capital Markets Association, and industry participants including CIBC Mellon have begun work toward shortening the settlement cycle in Canada to T+1, the day after trade date.

On September 2017, the U.S. and Canadian financial infrastructures shortened the conventional settlement cycle to T+2 from T+3 to align with the European Union that moved to T+2 in 2014.

In January 2018, Depository Trust & Clearing Corporation (DTCC) published a white paper stating its intention to explore opportunities to shorten the settlement cycle to T+1. More recently, in February 2021, DTCC published a second white paper that outlined its two-year industry roadmap to accelerate settlement to T+1 by the second half of 2023 and is currently engaged in an industry-wide consultation process to build consensus around the proposed new settlement cycle.

In its latest paper, “Advancing Together: Leading the Industry to Accelerated Settlement,” DTCC highlights the immediate benefits of moving to a T+1 settlement cycle, including cost savings, reduced market risk and lower margin requirements as well as the firm’s plans for galvanizing the necessary support for the project across a wide range of market participants.

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.

THE CANADIAN CAPITAL MARKETS ASSOCIATION (CCMA) ANNOUNCES STUDY OF T+1 SETTLEMENT CYCLE

The CCMA Board formally approved a new CCMA priority: coordinating the Canadian capital markets’ review of shortening the settlement cycle from the current North-American standard to T+1 from T+2 – the day after a trade is made.

Canadian financial services members have been involved in discussions of a reduced settlement cycle with U.S. counterparts since last year. U.S. industry leads have now formally announced efforts to accelerate the securities settlement cycle to T+1 from T+2 , with a date for the change to be identified later this year.

The CCMA states that it led national industry-wide efforts to reduce the settlement cycle to T+3 from T+5 in 1995, and to T+2 from T+3 in 2017, on the same day as the U.S. given Canada’s and the U.S.’s highly inter-related capital markets. After the transition, CCMA members completed a T+2 Project – Post-Mortem Report (2018), which provides guidance for CCMA Advisory Council members working on the T+1 project.

We are also taking steps with the relevant market utilities and entities to affirm that our technology and operational procedures are adequately updated.

CIBC MELLON AND T+1

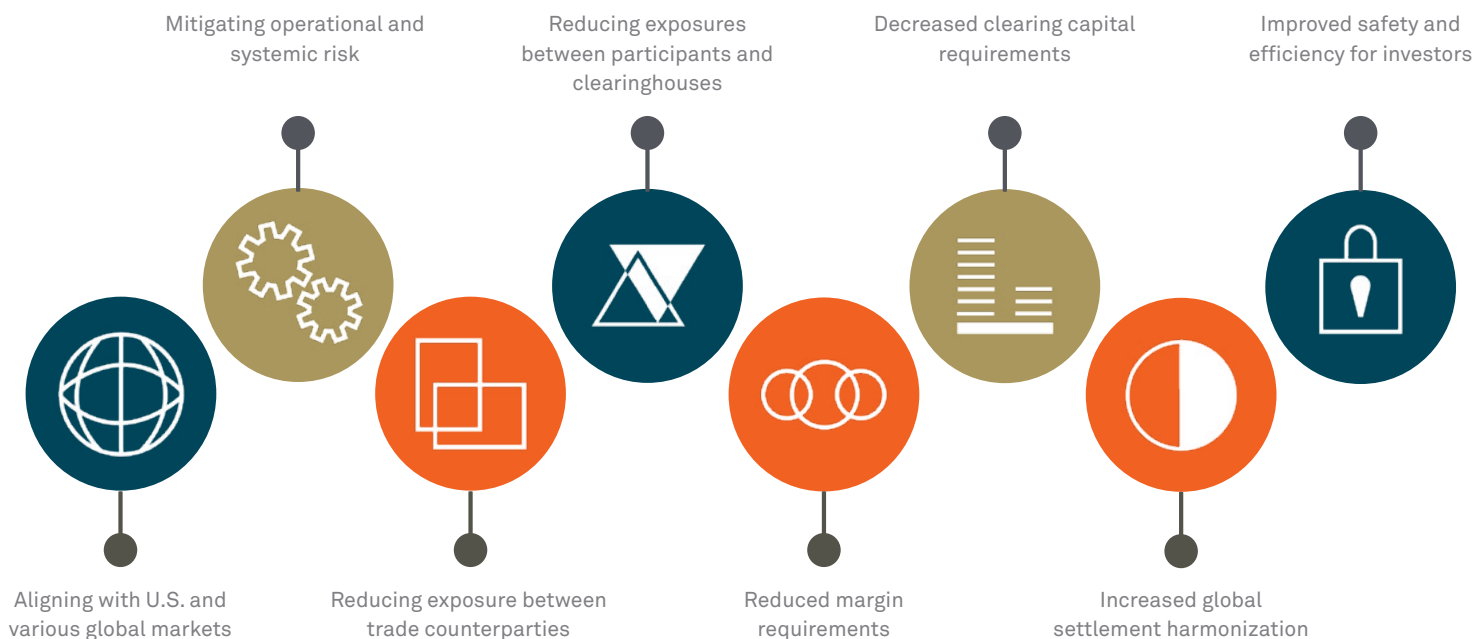
CIBC Mellon is playing an active role in the readiness and consultations taking place across the industry leading up to the implementation.

CIBC Mellon participated actively on the T+2 project in 2016-2017. We expect to stay involved as the T+1 discussion happens in Canada in the months and years ahead. 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 including same-day settlement on T, T+1, T+2 and T+3, to T+5 and beyond. We are ready and able to handle T+1 settlement following implementation in the United States, and in due course if Canada proceeds in the same direction. 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.

BENEFITS TO CLIENTS AND SECURITIES FIRMS

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+1 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.

BENEFITS OF SHORTENING THE SETTLEMENT CYCLE:



For more information

We will continue to provide clients with updates as they relate to the T+1 settlement in Canada and CIBC Mellon's supportive efforts. If you have any questions, please reach out to Lou Lesnika or your Relationship Manager.

Notes

- <https://ccma-acmc.ca/en/t1-resources/newsletters-articles/> <https://www.dtcc.com/dtcc-connection/articles/2021/august/17/preparing-for-t1-settlement>; <https://www.dtcc.com/-/media/Files/PDFs/White%20Paper/DTCC-Accelerated-Settle-WP-2021.pdf>

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