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CCMA ACMC Canadian Capital Markets Association
Association canadienne des marchés des capitaux

ISDA Safe, Efficient Markets

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T+1 SETTLEMENT CYCLE BOOKLET

SIFMA, CCMA and ISDA have published this T+1 settlement cycle booklet to address queries from market participants on the settlement cycle changes taking place in North America on May 27-28, 2024, and the possible impact to relevant securities and over-the-counter (OTC) derivatives transactions. This booklet may be updated from time to time.

The list of instruments that could be affected by T+1 implementation is not intended to be exhaustive and considerations about the upcoming changes do not constitute advice for any particular question, issue or concern and should not be considered a guide to or explanation of all relevant issues or considerations in connection with the impact of the settlement cycle changes taking place in North America on May 27-28, 2024 on relevant securities and derivatives transactions. This booklet provides summary information and is intended to be an information resource only and the publishing parties are not responsible for the accuracy of the information. Firms should consult with their legal advisor and any other advisor they deem appropriate in considering the issues discussed in this booklet. The publishing parties encourage firms to conduct their own analysis of the rule or specifics of transactions. Each of SIFMA, CCMA and ISDA do not assume any responsibility for any use to which this booklet may be put.

SECTION 1[1]

SEC FINAL RULE IN THE US

1.1 The SEC Final Rule and Key Dates

On February 9, 2022, the Securities and Exchange Commission (SEC) issued a proposal to shorten the securities settlement cycle from trade date plus two business days (T+2) to trade date plus one business day (T+1). On February 15, 2023, the SEC voted to adopt the proposed rule, formally known as 15c6-1. As a result, the US securities markets will transition to T+1 on May 28, 2024. Subsequently, Canada and Mexico[2] announced they will transition to T+1 settlement on May 27, 2024.

Further information on the SEC's final rule can be found here: www.sec.gov/files/rules/final/2023/34-96930.pdf.

IMPACT TO SECURITIES MARKETS IN THE US

1.2 Impact to Market Participants

The acceleration to a T+1 settlement cycle will impact firms across the financial services industry and throughout the trade lifecycle. Affected market participants include issuers, asset managers (Investment Company Act of 1940 (40 Act) Funds and Non-40 Act Funds), broker-dealers (retail, institutional and prime brokerage), global custodians, vendors, service bureaus, transfer agents, exchanges, clearing firms, buy-side firms and depositories.

Market participants should be aware of changes to allocations and affirmation requirements. The SEC final rule states that firms should allocate trades as soon as technologically practical but no later than end of day on the trade date. The industry has recommended a best practice time for allocations to be completed by 7:00pm Eastern Time (ET) on the trade date to ensure firms have sufficient time to process confirmations and affirmations by the Depository Trust and Clearing Corporation's (DTCC) affirmation cutoff of 9:00pm ET on trade date. The deadline for institutional trade affirmation at DTCC is changing from 11:30am ET on T+1 to 9:00pm ET on the trade date.

Updated exchange-traded fund (ETF) creation and redemption timelines have been posted to UST1.org here: www.dtcc.com/ust1/-/media/Files/PDFs/T2/ETF-T0-Create-Redeem-Cycle-Timeline.

1.3 Products in Scope for T+1 in the US

The products subject to the T+1 settlement cycle are securities that do not carry an exemption from 17 CFR § 240.15c6-1(a). 'Securities' as defined in Section 3(a)(10) of the Exchange Act cover equities, corporate bonds, unit investment trusts (UITs), mutual funds, ETFs, American depositary receipts (ADRs) and options, among other things. Application of 17 CFR § 240.15c6-1(a) extends to the purchase and sale of securities issued by investment companies, including mutual funds, private-label mortgage-backed securities and limited partnership interests that are listed on an exchange.

In support of regulatory mandates to implement T+1 protocols, SIFMA has developed through consultation with industry participants the following voluntary recommendations for scenarios involving foreign securities.

[1] For any queries relating to Section 1, please contact SIFMA

[2] See Section 1.13 for information about Mexico

- **Voluntary Recommendations:** www.dtcc.com/-/media/Files/PDFs/T2/Foreign-Securities-Voluntary-Recommendations.pdf

- **FAQs:** www.dtcc.com/-/media/Files/PDFs/T2/Foreign-Securities-FAQ.pdf

The SEC has released frequently asked questions (FAQs) on T+1 settlement. As per FAQ #2, the SEC has stated that Rule 15c6-1 applies to brokers and dealers required to register in the US that execute transactions in securities.

The SEC's FAQs on T+1 are available here: www.sec.gov/exams/educationhelpguidesfaqs/t1-faq.

1.4 Security-based Swaps are Not in Scope for T+1 in the US

The SEC modified 17 CFR § 240.15c6-1(b) to exclude security-based swaps from the requirements under 17 CFR § 240.15c6-1(a). The SEC also retained exemptions for certain insurance products, as well as exemptions for certain foreign securities.

Since Rule 15c6-1(b) concerns the scope of transactions excluded from the requirements of Rule 15c6-1(a), the amendment will come into effect on the effective date of May 28, 2024. Notwithstanding this, aligning the settlement cycle of security-based swaps with the cycle of the referenced in-scope security can avoid settlement mismatches between the two instruments (see Section 3).

1.5 Other Security Exemptions for T+1 in the US

17 CFR § 240.15c6-1(a) does not apply to: (1) contracts for the purchase or sale of limited partnership interests that are not listed on an exchange or for which quotations are not disseminated through an automated quotation system of a registered securities association; (2) security-based swaps; or (3) contracts for the purchase or sale of securities that the SEC may, from time to time, taking into account then existing market practices, exempt by order.

17 CFR § 240.15c6-1(a) does not apply to *"contracts for the sale for cash of securities that are priced after 4:30pm ET on the date such securities are priced and that are sold by an issuer to an underwriter pursuant to a firm commitment underwritten offering registered under the Securities Act of 1933 or sold to an initial purchaser by a broker-dealer participating in such offering provided that a broker or dealer shall not effect or enter into a contract for the purchase or sale of such securities that provides for payment of funds and delivery of securities later than the second business day after the date of the contract unless otherwise expressly agreed to by the parties at the time of the transaction".*

SEC Rule 15c6-1(d) retains the ability for underwriters and parties to agree in advance of a transaction to a settlement cycle other than the standard settlement cycle. SEC Rule 15c6-1(c) also shortens the separate standard settlement cycle for firm commitment offerings priced after 4:30pm from four business days after trade date (T+4) to T+2.

1.6 Benefits of Accelerated Settlement

The increased time to settlement may equate to counterparty risk and margin requirements, which are designed to mitigate those risks, and represent costs to market participants – most directly to members of clearing utilities such as the DTCC. The immediate benefits of moving to a T+1 settlement cycle may mean cost savings, reduced market risk and lower margin requirements.

Today, an average of over $13.4 billion is held in margin at the DTCC every day to manage counterparty default risk in the system. An analysis carried out by the DTCC predicts that shortening the settlement

cycle to T+1 could potentially reduce the volatility component of the National Securities Clearing Corporation's margin by 41%, assuming current processing and without any other changes in market behavior. Market participants will likely see additional savings through greater efficiency and expedited processing.

1.7 Certain Operational Effects on Market Participants

Beyond the impact to in-scope products, market participants should consider how the shortened time frames associated with the move to T+1 settlement will affect their wider operations, products and processes, particularly where they intersect with the securities lifecycle. The effects of shorter time frames may be particularly important for market participants in other regions, where time zone differences will further shorten the windows available to execute key processes (eg, trade affirmation or associated FX transactions). Organizations will need to assess processes and adjust for changes to market synchronization (newly in-sync and out-of-sync markets). The settlement mismatch between the US and foreign jurisdictions will impact various business segments.

For example, US-traded ETFs holding non-US securities (where the settlement cycle is not T+1) should review the impact on posting collateral resulting from basket creation and redemption. On the creation side, authorized participants (APs) will need to post collateral for an additional day for the ETF agent to release the ETF shares on T+1 in cases when the underlying securities are international and settle T+2 or longer. This misalignment in settlement cycles introduces the possibility of APs needing to establish lines of credit, with collateral payment shifting a day forward.

ADRs will also be affected across trade processing, asset servicing and documentation, along with other areas like US-issued equities. T+1 will likely impact both sponsored and unsponsored depositary receipts and depository banks. Sponsored ADR issuers and unsponsored ADR participants should review their issuance and cancellation procedures to ensure changes are addressed to shorten the settlement cycle. Market makers in these securities that rely on ADR conversions to cover their delivery obligations should consider the underlying securities' settlement cycle and how this misalignment will impact their ability to meet settlement obligations in a T+1 settlement cycle.

Many firms process fixed income and options transactions today for foreign clients. With 24 fewer hours to steer foreign activity through the settlement process, firms will need to carefully review their current T+1 processes to ensure they can accommodate increased capacity needs. Due to the shortened settlement cycle, coordinated efforts need to be taken by wholesale FX market participants to introduce T+1 settlement without disruption, particularly for non-US-based investors given time zone differences.

Organizations should consider the impact of changes to the timing of Continuous Net Settlement (CNS) projection reports as a result of T+1 settlement and update their processes. The CNS projection report that is currently distributed at 12:30am ET on T+1 will change to 2:00am ET on T+1. The NSCC CNS midday projection file will move from its current 12:00pm ET distribution on T+1 to 5:00pm ET on T+1. Distribution of the NSCC CNS position prior to the night cycle report will move from 7:30pm ET on T+1 to 9:45pm ET on T. The CNS position prior to the day cycle will move from its current 12:30am ET distribution on T+1 to 2:00AM ET on T+1.

In T+1, manual processes are encouraged to be automated. For example, leveraging instruction automation through service providers can reduce manual processing. Operational and technical issues may arise if technology platforms and related processes are not updated to meet regulatory or industry-imposed deadlines (eg, resolution of trade mismatches, delivery to CNS within specific timelines and reduction in straight-through processing).

Another consideration is how firms will deal with market participants in a non-US region trading

in-scope products – for example, a client in Asia trading a derivative referencing a US stock. In this scenario, market participants should review the SEC's recently published FAQ (www.sec.gov/exams/educationhelpguidesfaqs/t1-faq). FAQ #2 states: *"Rule 15c6-1 applies to brokers and dealers required to register in the United States executing transactions in securities."*

For such transactions, parties should also review SIFMA's voluntary recommendations for scenarios involving foreign securities (see Section 1.3 for links).

1.8 Foreign Exchange (FX) Market Implications of T+1

T+1 may create knock-on challenges for FX markets because of the need to execute the securities transaction followed by the related FX trade within a compressed time frame to convert currencies into US dollars. Foreign investors may need to transact currencies to fund their US dollar security transactions in local markets and will potentially have less time to fund transactions. These challenges reflect the intersection of T+1 settlement time frames with FX process timelines (eg, CLS and custodian bank cutoff times).

These impacts may be particularly acute for Asian-based investors – local markets may have closed before US securities can be transacted. The mismatch in settlement cycles may require firms to prefund transactions, and firms will need to make behavioral changes to compensate for the new compressed timelines.

The industry has been carrying out extensive analysis of the scale of the affected markets and the timelines in question and have identified numerous business practices and operational changes that can help mitigate these challenges and ensure the timing impacts do not disrupt international participants in the US securities markets. The Global FX Division (GFXD) has produced a detailed account of the considerations for transacting FX for T+1.

GFXD-FX Considerations for T+1 US Securities Settlement: www.gfma.org/wp-content/uploads/2023/05/gfxd-fx-considerations-for-t1-u.s-securities-settlement-may23-003.pdf

GFXD highlights the challenges of real-time gross settlement systems, nostro accounts and local currency cutoff times when trading on a cross-border basis.

Additionally, CLS carried out analysis of its transaction data, and determined that a value equivalent to approximately less than 1% of the CLSSettlement average daily settlement value is executed on a T+1 basis, comprising volumes where one side is US dollars and a fund is party to the trade. This suggests that the overall impact to CLSSettlement may be limited.

CLS has provided additional information on CLSSettlement in the context of T+1 here: www.cls-group.com/news/update-on-the-potential-change-to-clssettlement-timelines-following-the-move-to-tplus1-securities-settlement.

Additionally, the Foreign Exchange Professionals Association (FXPA) has published *FXPA Buy Side Guidance in Preparation for T+1 Settlement*. The guide outlines recommendations and considerations across the trade lifecycle to help market participants prepare. It is available here: https://fxpa.org/wp-content/uploads/2023/11/T-1-Settlement-Guidance-for-Buy-Side-11-27-23.pdf.

The FXPA guide highlights practical pre-trade considerations, such as the compressed time for onboarding new accounts prior to settlement and the potential need for night desks in North America.

1.9 Changes to Trade Affirmation, Allocation and Confirmation Processes Under T+1

The timelines for trade affirmation, allocation and confirmation will all be shortened in the post-T+1 environment. This change was confirmed by the SEC in two updated rules released in 2023:

- **For broker-dealers and their buy-side counterparties:** Exchange Act Rule 15c6-2 requires broker-dealers and investment managers to complete allocations, confirmations and affirmations as soon as technologically practicable and no later than by the end of trade date.

- **For SEC-registered investment advisors:** Amended Advisers Act Rule 204-2 requires registered investment advisors that are parties to contracts under Rule 15c6-2 to make and keep records of confirmations received and allocations and affirmations sent, each with a date and time stamp.

- The retention period is no less than five years from the end of the year in which the trade was executed. Additionally, records must be readily available in a reasonable amount of time. Rule 204-2(e)(1) states: *"[a]ll books and records required to be made under the provisions of paragraphs (a) to (c)(1)(i), inclusive. . . shall be maintained and preserved in an easily accessible place for a period of not less than five years from the end of the fiscal year during which the last entry was made on such record, the first two years in an appropriate office of the investment adviser."* This may be found at 17 CFR 275.204-2.

Details on both rules and their key requirements are available here: www.dtcc.com/ust1/-/media/Files/PDFs/T2/SEC-Rule-15c6-2-IA-204-2.

Market participants should also consider how the new time frames for these rules align with their internal processes, time zones of their counterparties and working hours of their staff, and dependencies on external infrastructure providers and vendors.

1.10 Corporate Action Changes

Corporate actions, such as rights, warrants and income distributions that occur on securities that are traded at securities exchanges, will trade either with or without the distribution near the time of the event's record date. To determine when the security is traded without the distribution, the securities exchange establishes (referred to as 'rule') an ex-dividend date (ex-date) where the price of the security is adjusted by the amount of the distribution. In the current T+2 settlement cycle, the regular way ex-date will typically occur prior to the record date of the event, falling on the trading day before the record date. The irregular way ex-date occurs when the ex-date is ruled after the record date.

In a T+1 environment, the ex-date and record date would be the same, commonly referred to as a 'regular way ex-date'. With a regular way ex-date, due bills are not necessary as any trade entitled to the dividend would be settled on the record date. However, due bills are required for any ex-date that is not a regular way ex-date.

The exchanges set ex-dates and typically will set a later ex-date (eg, day after payment date) for stock or large cash dividends that exceed 15%-25% of the value of the stock. This practice helps to maintain market values because, in a regular way ex-date, the price would typically drop by the value of the dividend on ex-date. However, the proceeds would not be paid until later. This undervalues the stock and impacts portfolio modelling and purchasing power. Any irregular ex-date would still require a due bill. Organizations must adjust the ex-date period for a regular way ex-date and modify the due bill period calculation for regular way and irregular ex-dates.

Additionally, as leaders of the industry T+1 Settlement Steering Committee in the US, SIFMA, the Investment Company Institute (ICI) and DTCC requested the assistance of corporate secretaries in sensitizing constituent groups (including members, issuers and other interested parties) on the scheduling of corporate action dividend events near the North American transition weekend[3].

The US will transition to T+1 on May 28, 2024, one day after Canada and Mexico. Similar to recommendations made when the industry moved to T+2 in 2017, SIFMA, ICI and DTCC encourage secretaries to remind market participants (including corporate issuers and listing agents) of the transition and request they avoid corporate action events with actionable dates from Friday May 24, 2024 to Tuesday May 28, 2024.

Examples include the following:

- Ex-dates and record dates on distributions, such as dividends and stock splits;
- Corporate actions (voluntary and mandatory) with expiration and effective dates around or during the implementation weekend.

Normal corporate actions processing – including designation of post-implementation expiration, effective and ex-dates – may resume on Wednesday May 29, 2024.

Another consideration includes the treatment of indices and ETFs. Currently, index providers do not publish a settlement cycle at an index level. Importantly, page 10 of the SEC final rule[4] states that ETFs are in scope for T+1 settlement. Although many indices and custom basket ETFs contain both T+1 and non-T+1 constituent parts, the ETF must settle on a T+1 basis. As explained in Section 1.7, there should be a consistent approach to process and settle all ETFs on a T+1 basis.

1.11 Impact on Securities Lending in the US

To reduce potential increases in settlement, fail rates and potential buy-ins resulting from sales of loaned securities, the industry recommends that lenders adopt a best practice of issuing their recalls by 11:59pm ET on T. However, this deadline does not supersede existing Master Securities Lending Agreements. The more notice borrowers have to return securities, the more likely they will be returned in time for settlement.

The change in the settlement cycle will necessitate behavioral change in lenders, borrowers, custodians, broker-dealers and service providers, because security lenders will have less time to recall securities on loan and security borrowers will have less time to return those securities to settle a sale of loaned securities. These behavioral, technological and process changes are important to mitigate the impact on settlement processes resulting from a compressed settlement time frame.

Some lending agents use a batch process for recalling shares, while others will recall intra-day. The move to a T+1 settlement cycle can pose challenges for custodians that must receive trade instructions on the institutional workflows in a timely manner to be able to process their recalls on trade date. Where the lending agent is also the custodian bank, any securities lending recalls would not begin until after this trade instruction workflow reaches the custodian. If a third-party lender is involved, this creates a secondary, bifurcated flow that can also be delayed. A third-party lending agent must be separately instructed, and subsequently must have the shares recalled and put back into the custody position at the bank for delivery to occur on time.

[3] SIFMA, ICI and DTCC: T+1 Corporate Action Notice, February 9, 2024, www.dtcc.com/-/media/Files/PDFs/T2/T-1-Corporate-Action-Notice.pdf

[4] See Section 1.1 for further information on the SEC final rule

Under T+1, a lender that sells the loaned securities is incentivized to issue the recall on the trade date to minimize the risk of a failure to deliver and potential resulting buy-ins. The more notice broker-dealers have to return securities, the more likely they will be returned in time for settlement. Although the legally binding recall time will continue to be determined by the securities lending agreement between the lender and the borrower, the industry recommends an 11:59pm ET on T recall cutoff as best practice. SIFMA believes this recommendation would provide sufficient time for the lender and its agents to complete the post-trade operational steps necessary to issue recalls and would be reasonably expected to increase the rate at which loaned securities are returned on T+1.

The best practice will cause the recall process to work as follows: the lender issues the recall before 11:59pm ET on T. This should provide sufficient notice to enable the borrower to attempt to return the loaned securities on T+1 (often by delivering newly borrowed shares) to settle the sale of the loaned securities on a timely basis. However, the legal cutoff time to return the loaned securities may not occur until a later cutoff time agreed by the lender and borrower under the relevant securities lending agreement (eg, 3:00pm ET on T+2). The Rule 204 close-out requirement would remain at SD+3 (or T+4).

1.12 Resources Available to Help Firms Prepare for Transition

Industry Playbook: SIFMA, ICI and DTCC have released the *T+1 Securities Settlement Industry Implementation Playbook* in collaboration with Deloitte. The playbook includes a detailed implementation schedule, interim milestones and identified dependencies. It discusses impacts and key considerations across a range of key affected areas, including trade processing, asset servicing, documentation, securities lending, prime brokerage and funding and liquidity considerations, as well as regulatory changes and testing and migration. The T+1 playbook is available here: www.sifma.org/resources/general/t1-playbook/.

DTCC Resources: DTCC maintains a robust library of resources related to the T+1 transition, covering both changes happening at DTCC and considerations for market participants. The full set of resources is available here: www.dtcc.com/ust1.

Resources that may be of particular interest in understanding the transition and its impact on firms include:

- **FAQs:** www.dtcc.com/ust1/faqs
- **Documentation, including archives of educational webinars:** www.dtcc.com/ust1/documentation
- **Testing:** www.dtcc.com/ust1/-/media/Files/PDFs/T2/UST1-Testing-Document-v9-January-2024.pdf

T+1 IN MEXICO AND ARGENTINA

1.13 Mexico

Mexico's central counterparty for equities, Contraparte Central de Valores (CCV), informed market participants and the public that, as of April 12, 2024, the National Banking and Securities Commission (CNBV) and Mexico's central bank (Banxico) have granted their authorization to change the settlement cycle for capital market securities from two business days (T+2) to one business day (T+1), which will come into effect on May 27, 2024. The notice from the CCV is available here: www.contraparte-central.com.mx/wb3/wb/CCV/archivos_publicos/_vtp/CCV/11ad_2024/_rid/151/_mto/3/T1_Aviso_aprobacion_ingles_20240415.pdf?repfop=view&reptp=11ad_2024&repfiddoc=759&repinline=true.

1.14 Argentina

On March 6, 2024, Bolsas y Mercados Argentinos (BYMA) announced the reduction of the settlement cycle to T+1 for normal cash transactions (stocks and bonds) in Argentina, (pending approval from Argentina's Comisión Nacional de Valores). The T+1 notice from BYMA is available here: www.byma.com.ar/noticias/reduccion-ciclo-liquidacion-operaciones-contado-normal/.

SECTION 2[5]

IMPACT ON SECURITIES MARKETS IN CANADA

2.1 T+1 Rules in Canada

Canadian and US markets are significantly interlinked; both markets have been on the same standard securities settlement cycle for decades and the two countries have moved in sync to shorter cycles. The SEC's mandating of T+1-related regulatory changes led to proposals to amend comparable Canadian rules, although Canada's securities regulatory structure and approach are different.

Final rule: Canadian securities regulators (the Canadian Securities Administrators (CSA)) have set a different trade matching time and percentage compared to those set by the SEC: 90% of securities transactions by value and volume must be matched by 3:59am ET on T+1 in Canada. This better accommodates the needs of institutional investors (including those from overseas) investing in Canadian markets (the SEC requires all securities transactions to be matched as soon as technologically practicable and no later than midnight ET on T, which is supported by a 9pm cutoff at DTCC).

See *Amendments to National Instrument (NI) 24-101 Institutional Trade Matching and Settlement and Changes to Companion Policy 24-101* (December 13, 2023; for effect May 27, 2024) (www.osc.ca/en/securities-law/instruments-rules-policies/2/24-101/csa-notice-amendments-nationalinstrument-24-101-institutional-trade-matching-and-settlement-and).

Key dates:

Friday May 24	Saturday May 25	Sunday May 26	Monday May 27	Tuesday May 28	Wednesday May 29	Thursday May 30 on
Last T+2 trade date	Conversion weekend	Conversion weekend	First T+1 trade date	Double settlement date	Trade and settle T+1	Trade and settle T+1

2.2 Impact on Market Participants

The CSA trade matching rules apply to registered advisors and registered dealers. NI 24-101 also applies to clearing agencies and matching service utilities. The 3:59am ET deadline on T+1 is before the start of the next day's trade settlement cycle at 4:00am. It gives market participants in different time zones in Canada more flexibility, custodians and institutional investors (the buy side) will have additional time to confirm trades, and sell-side firms (broker-dealers) will be better able to manage collateral and settlement. Counterparties operating in non-Canadian time zones – especially Asia, Europe and the UK – will be able to start working to correct any trading errors for several hours before business opens in North America.

As in the US, shortening the settlement cycle will impact market participants broadly, including buy-side firms/institutional investors/portfolio managers (including pension funds), broker-dealers, clearing infrastructure, correspondent clearers, custodians, issuers, marketplaces (including exchanges), retail clients, service bureaus and service providers, technology providers and transfer agents.

2.3 Products in Scope for T+1

Companion Policy NI 24-101CP refers to the expression 'institutional trade' – effectively, delivery-against-payment and receipt-against-payment trades (DAP/RAP), whether they are settled by a non-dealer or a dealer custodian. The types of products in scope for the trade-matching requirements are not

[5] For any queries relating to Section 2, please contact CCMA

itemized in NI 24-101. However, practically speaking, they include all securities currently settling on a T+2 standard (equities and other platform-traded securities – eg, ETFs, government and corporate bonds and derivatives) unless otherwise excluded.

At a detailed level, Canadian industry participants reviewed all Canadian investment types (including ones not covered by NI 24-101) and their current and future status, now reflected in the CCMA's Canadian T+1 Asset List (v. 3): https://ccma-acmc.ca/en/wp-content/uploads/T1-Asset-List-v.3-October-31-2023.pdf. The same approach was used for the move from T+3 to T+2 in 2017. For clarity and consistency, in scope are securities listed on a Canadian exchange that trade on secondary markets that are entirely or almost entirely moving to T+1, whether in certificated or uncertificated form. Note: the list may be updated, but changes, if any, are expected to be minimal.

2.4 Security-based Swaps

Canadian market participants are expected to follow US practice.

2.5 Other Security Exemptions for T+1 in Canada

Paraphrasing and expanding on NI 24-101, excluded from the trade matching requirements are:

a. New issue transactions, such as initial public offerings and 'when issued' securities before issuance (**Note:** creation of ETF units (akin to creating new issues) is excluded from NI 24-101, but measures are being addressed as part of the T+1 project to support ETF trading on secondary markets, which will settle on T+1);

b. A trade in a security to the issuer of the security;

c. A trade made in connection with a takeover bid, issuer bid, amalgamation, merger, reorganization, arrangement or similar transaction (**Note:** the Canadian industry has agreed to align with US practice, which will result in subsequent regulatory amendments);

d. A trade made in accordance with the terms of conversion, exchange or exercise of a security previously issued by an issuer;

e. A trade that is a securities lending, repurchase, reverse repurchase or similar financing transaction;

f. Purchases or redemptions governed by NI 81-102 *Investment Funds* (**Note:** see Section 2.6. In past settlement-cycle-shortening efforts, conforming amendments were made to NI 81-102 – ie, when the cycle changed from T+5 to T+3 and from T+3 to T+2);

g. A trade to be settled outside Canada;

h. A trade in an option, futures contract or similar derivative (**Note:** see Section 2.6);

i. Securities already settling on a T basis (eg, T-bills) (money market mutual funds and options that already settle on T or T+1 are not expected to change).

Also excluded are 'special terms' trades, which (by definition) are already not on the standard cycle per Universal Market Integrity Rules (UMIR) 1.1.

2.6 Products Not Mandated, but Expected to Move (at Least Partly) to T+1 in Canada

Two of the categories in Section 2.5 require special mention:

- With respect to (and despite) (h), a trade in an option, futures contract or similar derivative, Canadian market participants are expected to align with US market practices. This means that derivatives related to depository-eligible securities moving to T+1 will likely move to T+1 to keep cashflows aligned, avoiding increased capital, pre-funding or credit costs, and to reduce business risk between the derivative and corresponding hedge transaction as much as possible. The OTC market is expected to follow suit for similar reasons and to avoid basis risk between securities and the related derivatives instruments.

- With respect to (f), purchases or redemptions governed by NI 81-102 *Investment Funds*, this issue is largely a domestic one as conventional mutual funds and similar products do not trade on marketplaces, and there is no inter-listed equivalent. The settlement cycle of these instruments in Canada has in the past been the same as for non-fund securities, but the move to T+1 will not be mandated for funds. CSA Staff Notice 81-335 *Investment Funds Settlement Cycles* (December 15, 2022, www.osc.ca/sites/default/files/2022-12/csa_20221215_81-335_investment-fund-settlement-cycles.pdf) explains: *"… we are of the view that, where practicable, mutual funds should settle primary distributions and redemptions of their securities on T+1 voluntarily… We are not proposing to amend … (NI 81-102) at this time to shorten the settlement cycle."* At present, the Canadian marketplace is collecting information about which funds will move to T+1 on May 27.

Not regulated by either NI 24-101 or NI 81-102, segregated funds have still typically settled on the same settlement cycle as mutual funds. As mutual funds may or may not move to T+1, the same uncertainty applies with respect to segregated funds. Funds of funds also are an issue.

2.7 Benefits of Accelerated Settlement

Similar to the US, the benefits are a reduction in counterparty default and market risks. There will be the equivalent approaching a day's decrease in collateral requirements for CDS Clearing and Depository Services Inc. (CDS) participants and indirectly for others. While the costs of moving to T+1 may exceed the benefits for some stakeholders at the start, it is believed that increasing automation will reduce errors and other expenses and improve resiliency.

2.8 Certain Operational Effects on Market Participants

In addition to the benefits described so far, a number of issues present T+1 implementation challenges and some effects will last for an adjustment period. The impact on different stakeholders is uneven, with market players in Europe and points east having much less time for trade confirmation, securities recall and foreign exchange processes, and even less time to correct errors. To the extent that processes cannot be automated, there is concern that unmatched/unsettled trades will roll over to successive days. If the magnitude of the rolling corrections grows, the effects on markets could be an increase (or further increase) in failed trades.

2.9 FX Market Implications of T+1

In addition to the resources mentioned in Section 1.8, useful guidance can be found in an ACI Financial Markets Association briefing note, *USD T+1 Securities Settlement and the Impact on FX* (released January 15, 2024, https://acifma.com/sites/default/files/inline-files/ACI FMA Briefing Note USD T%2B1 Securities Settlement and the Impact on FX_.pdf).

A 2023/24 ValueExchange survey on the target FX model found that, at least in the immediate term for T+1, 25% will rely on pre-funding, 33% will execute an FX transaction on a gross basis at the same time as a security trade is placed during the trading day, 21% will execute FX transactions between 4pm and 6pm on trade date, and 21% will execute the FX transaction on T+1 for same-day delivery (https://ccma-acmc.ca/en/wp-content/uploads/ValueExchange_T1-Pulse-January-2024_Key-Findings_final-for-public-release.pdf). There will be a cost to these approaches, and further improvements in this area are expected.

2.10 Changes to Trade Entry, Allocation and Confirmation Processes Under T+1

The times set for the CDS Job Scheduler are as follows (CDS is the clearing agency, IMs are investment managers, BDs are CDS participant broker-dealers, CUs are custodians and ITP is institutional trade processing):

- Hourly 10am-4pm T: Marketplaces submit trades (currently end of day)
- Hourly 11am-5pm T: CDS returns exchange-trade messages/files (currently end of day)
- By 7:30pm on T: BDs enter allocated ITP trades
- By 3:59am T+1: IMs/BDs/CUs confirm ITP trades

2.11 Impact on Securities Lending in Canada

Market practice for recalls for T+2 settlement is 3pm ET on T+1 in Canada, as it is in the US. While SIFMA's *T+1 Playbook* identifies market best practice as moving from 3pm ET on T+1 to 11:59pm for a T recall, the market practice of a 3pm cutoff in Canada will not change but will rather be interpreted as 3pm ET on T/trade date. With a 3pm ET on T cutoff, borrowers will have at least the last hour of the trading day to process the recall and/or determine if they need to buy back the securities.

To facilitate processing, TMX/CDS has developed a Recall Portal, currently in testing, for use by CDS participants and non-CDS members. It will be interoperable with participants' internal systems, as well as for parties using securities lending vendor systems. The portal is expected to be launched at the end of April 2024.

2.12 Resources Available to Help Firms Prepare for the Transition

Resources can be found on the CCMA's T+1 portal, www.ccma-acmc.ca/en.

2.13 Impact of T+1 on Ex-date and Record Date

As the change from T+2 to T+1 is more complex than from T+3 to T+2, issuers and their advisors have been asked to avoid creating new events that settle on the first date set for trading on a T+1 basis (May 27) or the May 28 double settlement date (US first trading date), when trades from two business days prior and May 27 trades will settle on the same day. The effect of the move to T+1 on corporate action events is as follows:

Function	Current Practice	Practice as of May 27, 2024
Distribution Events If base security trades...	• Without due bills: ex-date is record date minus 1 • With due bills: ex-date is the due bill redemption date minus 1	• *Without* due bills: **ex-date is record date** • *With* due bills: **ex-date is due bill redemption date**
Mandatory Events	• CDS payable date is delisting date plus 3	• **CDS payable date is delisting date plus 2**
Mandatory with Options Events: Event set up is driven by date, not settlement cycle	• CNS restriction and trade conversion dates are calculated based on agent expiry and payable dates provided by external sources	• **No changes**
Voluntary Events: Letter of guaranteed delivery for event expiries (cover/ protect period)	• Expiry date plus 2	• **Expiry date plus 1**

Other dates relevant to the ex-date calculation of corporate action events are as follows:

Settlement	Day	Trade Date	Settlement Date	Record Date	Ex Date	Notes
T+2	Wed.	May 22	May 24	May 24	May 23	Regular T+2 settlement
T+2	Thurs.	May 23	May 27	May 27	May 24	Last full T+2 settlement
T+2	Fri.	May 24	May 28	May 28	May 27	Double settlement
T+1	Mon.	May 27	May 28	May 28	May 28	Double settlement AND first day ex-date equals record date
T+1	Tues.	May 28	May 29	May 29	May 29	Regular T+1 settlement
T+1	Wed.	May 29	May 30	May 30	May 30	Regular T+1 settlement

SECTION 3[6]

Considerations on the impact of the T+1 settlement cycle change to relevant OTC derivatives instruments reflect the input of members of the ISDA Equity Steering Committee and the ISDA Equity Market Infrastructure Group. While ISDA solicited the views from all members of the ISDA equity groups, not all members responded and not all members of ISDA are members of the ISDA equity groups. These considerations may not, therefore, reflect the full range of views held by ISDA's membership or of the ISDA equity groups in their entirety.

IMPACT TO OTC DERIVATIVES

3.1 In-scope Derivatives to Reduce their Settlement Cycle to T+1

US

The products subject to T+1 settlement are (unless exempted) securities as defined in Section 3(a)(10) of the Exchange Act – for example, equities, corporate bonds, UITs, mutual funds, ETFs, ADRs and **options**.

Security-based swaps are out of scope and there is no requirement to settle on a T+1 basis. 17 CFR § 240.15c6-1(a) contains language that permits parties to settle on a time frame other than T+1 if they expressly agree different timings at the start of the transaction. For OTC derivatives, this could be agreed through transaction confirmations. For listed derivatives, parties should refer to the rules of the relevant exchange. It is important to note that the SEC has stated that *"this so-called 'override provision' in paragraph (a) is intended for use only in 'unusual' or 'limited' circumstances"*[7].

Canada

The products subject to T+1 settlement have been reviewed by Canadian industry participants and are listed in CCMA's Canadian T+1 Asset List.

3.2 Impact on OTC Derivatives that are Hedged with In-scope Securities

- **OTC equity derivatives:** In previous settlement cycle reduction initiatives in North America and other markets, market practice was for the settlement cycle of relevant OTC equity derivatives referencing in-scope securities to be shortened to align with the settlement cycle of the referenced in-scope security, irrespective of whether the OTC equity derivatives were in-scope securities. This was primarily to avoid settlement mismatches between the OTC equity derivatives and corresponding hedges in the reference in-scope securities.

- **Other OTC derivatives:** For other asset classes, based on member feedback, ISDA understands that a key driver for amending the settlement cycle of OTC derivatives following a settlement cycle change is to avoid a settlement mismatch between the OTC derivatives and corresponding hedges.

  For example, as the spot convention for FX transactions is generally T+2 (the CAD/USD spot convention is T+1), market participants may need to consider whether any changes are required if there is a need to perform an FX conversion to obtain US/Canadian dollars to purchase a US/Canadian security that may be used as a hedge.

[6] For any queries relating to Section 3, please contact ISDA

[7] See response to question 4 of the Securities and Exchange Commission's Frequently Asked Questions Regarding the Transition to a T+1 Standard Settlement Cycle, published on March 27, 2024, www.sec.gov/exams/educationhelpguidesfaqs/t1-faq

It is therefore expected that the settlement cycle of OTC equity and other relevant OTC derivatives will be T+1 following the May 27-28, 2024 transition dates, either because it is required under the relevant rules or to match the settlement cycle for a hedge that is an in-scope security due to settlement, payment or other reasons.

3.3 There are No Plans to Launch an Industry-wide Protocol to Facilitate Updates of Relevant ISDA Documentation

ISDA has not received sufficient demand from its members to launch an industry-wide protocol to facilitate an update of the settlement cycle for affected transactions as set out in relevant ISDA documentation. Furthermore, ISDA understands that many market participants have made changes for previous settlement cycle reductions that would implement the current T+1 settlement cycle change – for example, by removing a hard-coded settlement cycle reference (that referred to a fixed number of days) and replacing it with generic settlement cycle wording, linking settlement of the relevant OTC derivatives to settlement of the reference security.

3.4 There are No Plans to Amend Relevant ISDA-published Equity Derivatives MCA Templates

There are no plans for ISDA to amend ISDA-published equity derivatives master confirmation agreements (MCAs) covering the Americas region to implement the settlement cycle change as those MCA templates do not reference a hard-coded settlement cycle number.

IMPACT TO OTC EQUITY DERIVATIVES EXECUTED AFTER THE TRANSITION TO T+1

3.5 Impact to Equity Swaps

Although equity swaps that are security-based swaps are not required to move to T+1 as a result of 17 CFR § 240.15c6-1(b)(2), feedback from ISDA members suggests market participants might align with the reduced settlement cycle for equity swaps that reference in-scope securities, from both a floating amount leg and equity amount leg perspective. This would apply to the interval between the trade date and the effective date and between a valuation date and the corresponding cash settlement payment date and/or settlement date.

Following the transition from interbank offered rates to risk-free-rates (RFRs), certain conventions can be applied to the floating amount leg of a swap (ie, observation period shift, lookback and lockout). These RFR conventions are designed to determine the floating amounts referencing an overnight rate in advance of the relevant payment date, therefore allowing floating amount payments to be settled on a shortened settlement cycle.

Due to the reduced time to perform relevant cashflow amount calculations and settlement-related processes, market participants may face operational challenges to make payments on T+1, especially if they are located outside North America. As a consequence, parties may agree to settle equity swap cashflows on a longer settlement cycle basis.

3.6 Impact to OTC Equity Options

Market participants might address the T+1 settlement cycle change for OTC equity options that reference in-scope securities by aligning with the reduced settlement cycle for each of the cash settlement payment date and the settlement date (for physical delivery). The interval between the trade date and the premium payment date may also be reduced.

3.7 Impact to Variance Swaps

Market participants might opt to align variance swaps that reference in-scope securities with the reduced settlement cycle for the cash settlement payment date.

3.8 Impact to Exotic OTC Equity Derivatives

Feedback from ISDA members suggests market participants will take a case-by-case approach to transactions that contain bespoke, non-standard features and may not follow the reduced settlement cycle of the referenced security. This includes certain non-vanilla OTC equity derivatives.

3.9 Impact to OTC Equity Derivatives Hedging Other Instruments

Market participants might address the T+1 settlement cycle change for OTC equity derivatives used as a hedge for other instruments (such as securitized notes or convertible bonds) by aligning with the corresponding instrument's settlement cycle.

3.10 Impact to Custom Basket/Index Transactions Comprising North American Securities and Non-North American Securities

Member feedback suggests parties may bilaterally agree what settlement cycle to apply to OTC equity derivatives on custom basket/index transactions. Certain institutions may apply the longer settlement cycle of the underlying shares and/or component securities, while others may apply the settlement cycle of the underlying share and/or component security with the largest weighting of the components of the index or basket.

For instance, if an OTC equity derivatives transaction references a global basket or index with a majority of the components listed in Canada, Mexico and the US, the parties may agree to: (i) apply a T+2 settlement cycle if that is the longer settlement cycle of the underlying basket or index components; or (ii) apply a T+1 settlement cycle because the majority of the components are listed in Canada, Mexico and the US, even though the basket or index also contains components with a longer settlement cycle.

IMPACT TO OTC EQUITY DERIVATIVES EXECUTED BEFORE THE TRANSITION TO T+1

3.11 There are Plans to Facilitate an Industry Coordination Exercise for the Treatment of the Settlement Cycle of Outstanding Transactions

ISDA has issued a preferences grid, in which firms can indicate whether they intend to settle outstanding transactions (ie, executed before the transition date) in line with the reduced settlement cycle and, if so, whether they wish to re-issue a confirmation detailing this change. ISDA has distributed the responses received to members, enabling them to coordinate to reduce the risk of settlement breaks. This initiative is being conducted in the ISDA Equity Market Infrastructure Group (www.isda.org/committees?ccode=EIG).

ABOUT SIFMA

SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the US and global capital markets. On behalf of our industry's one million employees, we advocate on legislation, regulation and business policy affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, DC, is the US regional member of the Global Financial Markets Association (GFMA). For more information, visit http://www.sifma.org.

ABOUT CCMA

The Canadian Capital Markets Association (CCMA) is a national, federally incorporated, not-for-profit organization launched in 1999 to identify, analyze and recommend ways to meet the challenges and opportunities facing Canadian and international capital markets. The CCMA's mandate is to communicate, educate, and help co-ordinate the different segments of the investment industry on projects and initiatives spanning multiple parts of Canada's capital markets. Participating under the CCMA's co-ordinating umbrella are dealers, custodians, asset managers, and industry associations; exchanges and securities infrastructure entities, including The Canadian Depository for Securities (CDS) and Fundserv; back-office service providers and vendors; and other stakeholders. For more information, visit https://ccma-acmc.ca/en/, follow the CCMA on LinkedIn, or email info@ccma-acmc.ca.

ABOUT ISDA

Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 1,000 member institutions from 77 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on LinkedIn and YouTube.

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