

New SRO Notice

Rules Notice

Request for Comments

UMIR / IDPC Rules

Rule Connection:

[UMIR Rules/IDPC Rules](#)

23-0054

April 20, 2023

Comments Due By: June 19, 2023

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Amendments to facilitate the investment industry's move to T+1 settlement

Executive Summary

New Self-Regulatory Organization of Canada (**New SRO**) is proposing amendments to the Universal Market Integrity Rules (**UMIR**) and Investment Dealer and Partially Consolidated Rules (IDPC Rules) (collectively, the Proposed Amendments) to facilitate the investment industry's move from a trade date plus two business days (**T+2**) settlement cycle to a trade date plus one business day (**T+1**) settlement cycle.

The primary objective of the Proposed Amendments is to ensure that the New SRO's requirements support the investment industry's move to T+1 settlement.

The Proposed Amendments:

- harmonize the UMIR and IDPC Rules with the T+1 settlement cycle by shortening delivery and settlement periods by one day,
- modernize the IDPC Rules related to buy-ins and physical delivery,
- repeal requirements for Dealer Members (**Dealers**) to file broker-to-broker trade matching exception reports, for consistency with the proposed revisions to National Instrument 24-101 – *Institutional Trade Matching and Settlement*, and
- align IDPC Rules referencing settlement periods of mortgage-backed securities to the industry settlement periods set under the NHA Mortgage-Backed Securities (**MBS**) Program.

How to Submit Comments

Comments on the Proposed Amendments should be in writing and delivered by **June 19, 2023** (60 days from the publication date of the notice) to:

Member Regulation Policy
New Self-Regulatory Organization of Canada
Suite 2000
121 King Street West
Toronto, Ontario M5H 3T9
e-mail: memberpolicymailbox@iiroc.ca

A copy should also be provided to the Recognizing Regulators by forwarding a copy to:

Market Regulation
Ontario Securities Commission
Suite 1903, Box 55
20 Queen Street West
Toronto, Ontario M5H 3S8
e-mail: marketregulation@osc.gov.on.ca

Commentators should be aware that a copy of their comment letter will be made publicly available on the New SRO website at www.iiroc.ca.

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1. Proposed Amendments

1.1 Relevant Background

In 1997 and in 2017, as technology and automation evolved, the investment industry shortened the standard settlement cycle for equity and long-term debt market trades to reduce processing times and increase market efficiency. Currently, the standard securities settlement cycle in Canada and the United States is two days after the date of the trade.

On December 1, 2021, the investment industry in the United States, represented by the Securities Industry and Financial Markets Association (**SIFMA**), the Investment Company Institute (**ICI**), and The Depository Trust & Clearing Corporation (**DTCC**), published a report targeting the first half of 2024 to shorten the United States securities settlement cycle further from two days after the date of the trade to one day after the date of the trade. The move to a T+1 settlement cycle will increase the overall efficiency of the securities markets and reduce credit, market and liquidity risks associated with securities transactions. On February 15, 2023, the Securities and Exchange Commission (**SEC**) adopted rule changes to shorten the standard settlement cycle to T+1. The industry must implement the move to T+1 by May 28, 2024 to comply with the SEC rules.

It is important that Canada's settlement cycle continues to be harmonized with the U.S. settlement cycle, because of the close connections between our capital markets. The Canadian Capital Markets Association (**CCMA**) is coordinating the move to T+1 in Canada across the key investment industry stakeholders to ensure all stakeholders are prepared for the implementation in 2024. The New SRO participates on the CCMA Board, the CCMA T+1 Steering Committee and the CCMA Legal and Regulatory Working Group (**LRWG**).

The text of the Proposed Amendments is set out in [Appendix B](#) and a blackline of the changes is set out in [Appendix A](#).

1.2 Current Rules

We reviewed UMIR, IDPC Rules, Mutual Fund Dealer Rules (**MFD Rules**), Form 1 and standard agreements to identify any provisions that may require revision due to the move to a T+1 settlement cycle. We identified one definition within UMIR and multiple provisions within the IDPC Rules that require amendments, which are described in section 1.3. No amendments were identified in the standard agreements, MFD Rules or Form 1.

1.2.1 Standard Agreements and recommendation to Dealer Members

Although we did not identify any required amendments to the clauses with the standard agreements, we recommend that Dealer Members review their executed agreements and accompanying schedules, to determine whether they may have instructions, deliver or payment obligations, and interest calculations that are dependent on or specific to a T+2 settlement cycle.

The standard agreements are:

- Bank of Canada – Term purchase and resale agreement
- Limited recourse call loan agreement
- Cross guarantee (related companies)
- Custodial agreement (general)
- Custodial agreement (NCI)
- Type 1 Introducing broker
- Type 2 Introducing broker
- Type 3 Introducing broker
- Type 4 Introducing broker
- Subordinated loan agreement
- Securities loan (with set-off)
- Securities loan (no set-off)
- Repurchase/reverse repurchase
- Mutual fund bare trustee agreement
- New issue loan master agreement

1.3 Details of Proposed Amendments

The Proposed Amendments:

- harmonize the UMIR and IDPC Rules with the T+1 settlement cycle by shortening delivery and settlement periods by one day,
- modernize the IDPC Rules related to buy-ins and physical delivery,
- repeal requirements for Dealers to file broker-to-broker trade matching exception reports, for consistency with the proposed revisions to National Instrument 24-101 – *Institutional Trade Matching and Settlement*, and
- align IDPC Rules referencing settlement periods of mortgage-backed securities to the industry settlement periods set under the NHA MBS Program

The text of the Proposed Amendments¹ is set out in Appendix B and a blackline of the changes is set out in Appendix A.

1.3.1 T+1 settlement period

We have amended the following rules as described to shorten the appropriate time periods to harmonize with the T+1 settlement cycle:

(a) Definition of Special Terms Order

¹ Note that the French version also includes minor drafting changes (see IDPC Rule clause 4760(1)(iii) and subclause 4805(1)(ii)(a)).

The definition of Special Terms Order in UMIR 1.1 sets out the circumstances in which an order for the purchase or sale of a security is considered to be a Special Terms Order. One of the circumstances is where the order would be settled on a date other than “the second business day following the date of the trade”.

We have changed “the second business day following the date of the trade” to “the first business day following the date of the trade” to reflect the move to a T+1 settlement cycle. (*Appendix A – Proposed Amendment #1*)

(b) Affirmation from settlement agent

IDPC Rule section 4757 describes the procedures to be followed for arrangements where the payment of securities purchased or delivery of securities sold is made through a client’s settlement agent. The settlement agent should be affirming the transaction before settlement date and not on settlement date. The T+1 settlement cycle would require the settlement agent to affirm transactions on the day of execution instead of the day after the trade when settlement occurs. In subclause 4757(1)(iv)(b), we have shortened the time frame for a settlement agent to affirm a transaction from ‘the business day after the date of execution’ to ‘the end of the day on the date of execution’. (*Appendix A – Proposed Amendment #5*)

(c) Settlement date for when issued trades

For when issued trades, IDPC Rule section 4760 sets out specific settlement date requirements, unless otherwise provided by the New SRO or the parties to the trade by mutual agreement. For when issued trades made before the trading day before the anticipated date of issue of the security, they must be settled on the anticipated date of issue of such security. For when issued trades made on or after the trading day before the anticipated date of issue of the security, they must be settled on the second settlement day after the trade date based on the current T+2 settlement cycle.

Under a T+1 settlement cycle any trades made on the trading day before the anticipated date of issue would settle the next day, which would be the date of issue. Any trades made on the trading day after the date of issue would settle the following settlement day under the T+1 settlement cycle.

We have changed clause 4760(1)(i) to include when issued trades that are on the trading day before the anticipated date of issue. We have changed clause 4760(1)(ii) to shorten the settlement period, for when issued trades made after the trading date before the anticipated date of issue, from “the second settlement day after the

trade date” to “the first settlement day after the trade date”. (*Appendix A – Proposed Amendment #6*)

(d) Fixed income accrued interest

For bonds or debentures that are available only in registered form, IDPC Rule section 4803 sets out the requirements for dealings in these securities to be on an “and interest” or a “less interest” basis.

For dealings to be on an “and interest” basis, dealings must be made from one business day prior to a regular interest payment and up to two business days prior to the closing of the transfer books for the next interest payment, both days inclusive. We have revised the start and end of the “and interest” period in subsection 4803(7) to “on the day of a regular interest payment and up to one business day before the closing of the transfer agent’s books for the next interest payment”, to harmonize with the T+1 settlement cycle.

For dealings to be on a “less interest” basis, dealings must be made from on business day before closing of the transfer agent’s books up to and including two business days prior to a regular interest payment. We have revised the start and end of the “less interest” period in subsection 4803(8) to “the day of closing of the transfer agent’s books up to and including one business day before a regular interest payment”, to harmonize with the T+1 settlement cycle. (*Appendix A – Proposed Amendment #7*)

(e) Fixed income delivery

IDPC Rule subsection 4805(1) defines regular delivery for government and other bonds and debentures and includes the terms for stopping of accrued interest. This subsection defines regular delivery as the second business day after the transaction date and requires interest to stop accruing, where applicable, on the second business day after the transaction takes place.

We have shortened the timeline in subsection 4805(1) to harmonize with the T+1 settlement cycle for:

- regular delivery to be defined as the first business day after the transaction date for all bonds and debentures, except T-bills which are settled the same day (T+0), and
- interest to be stopped on the first business date after the transaction date.

(*Appendix A – Proposed Amendment #8*)

(f) Unlisted registered shares

IDPC Rule subsection 4808(2) defines regular delivery for exchange-listed and unlisted registered shares. Regular delivery is defined as the settlement date generally accepted according to industry practise for the shares in the market in which the transaction occurs. No change to the regular delivery definition is required.

For transactions between Dealer Members, IDPC Rule subclause 4808(2)(ii)(b) sets out the requirement that unlisted registered shares are to be traded ex dividend, ex rights, or ex payments one business day prior to record date. We have replaced “one business day before the record date” with “on record date” to harmonize with the T+1 settlement cycle. (*Appendix A – Proposed Amendment #11*)

(g) Margin requirements for when issued trading

The margin requirements for when issued trading positions are set out in sections 5560, 5561 and 5562 for short, hedged, and long positions, respectively. For these positions, client account margin must be posted on “the second settlement day after the trade date”, or in the case of purchases, on the second settlement day after the trade date or the date of issuance or distribution of the security.

We have shortened the timeline to “the first settlement day after the trade date” to harmonize with the T+1 settlement cycle. (*Appendix A – Proposed Amendment #14*)

1.3.2 Physical Delivery and Buy-ins

During our review of the T+1 settlement impact on the delivery, trading and settlement rules, we identified delivery rules that required modernization as follows:

(a) Physical Delivery

IDPC Rule subsections 4805(5) and 4808(4) set out the the rules for physical delivery of fixed income and stocks. We modernized these rules, by removing the references to same or different municipalities and bank drafts. In addition, we also believe it is more appropriate to change the title from “Location” to “Physical Delivery” as these subsections relate to physical delivery of securities. We also replaced the specific time of “4:30 pm” for the delivery deadline with the general period of “close of business on settlement date”. We revised the language in subsection 4808(4) for consistency with the physical delivery rule in subsection 4805(5). (*Appendix A – Proposed Amendments #10 & #12*)

(b) Buy-ins

IDPC Rule section 4810 describes the procedures for buy-in transactions that are not cleared and settled through a clearing corporation. We modernized these procedures, by maintaining one process for buy-in transactions instead of different

processes that were dependent on whether the Dealers were in the same or different municipalities.

We shortened the timeline in clause 4810(1)(i) related to the deadline for the seller to notify the buyer of delivery before the buyer can opt to buy-in the securities. We have changed the timeline from the “fourth business day after a regular delivery transaction” to the “second business day after a regular delivery transaction” to harmonize with the T+1 settlement cycle. If delivery has not occurred by the second business day after a transaction occurs, the transaction will be considered a fail under a T+1 settlement cycle and the buyer should have the option to buy-in at that point. (*Appendix A – Proposed Amendment #13*)

1.3.3 Broker-to-broker trade matching

Part B of IDPC Rule 4700 sets out the general trading and delivery requirements applicable to all transactions including requirements for Dealers to match non-exchange trades executed between Dealers (**broker-to-broker**). Dealers are required to enter, accept and reject these trades in an acceptable trade matching utility by 6pm on the day the trade is executed. We are not proposing to amend the 6pm cut-off time as this time is considered sufficient to support a T+1 settlement. In response to the move to T+1, the Canadian Securities Administrators (CSA) has proposed revisions to National Instrument 24-101 – *Institutional Trade Matching and Settlement (NI 24-101)* which would repeal requirements for Dealers to file institutional trade matching exception reports. We are proposing similar amendments to the broker-to-broker trade matching rules as follows:

(a) Trade matching exception reports

Section 4756 requires the Dealer to provide a report to the New SRO when the quarterly compliant percentage for broker-to-broker trade matching is less than 90% in any quarter. The filing of this report is considered burdensome and has limited use given the New SRO monitors the quarterly compliant trade percentages through reporting from CDS. We are proposing to repeal this requirement for consistency with the proposed revisions to NI 24-101 and to reduce the regulatory burden caused by the redundant report filings. New SRO will continue to monitor the compliant trade matching percentages each quarter and may take action if the Dealer is not improving their percentage. (*Appendix A – Proposed Amendment #4*)

(b) Trade confirmation suppression

Since we are proposing to remove the requirement to file trade matching exception reports, corresponding amendments to the requirements allowing trade confirmation suppression in IDPC Rule paragraph 3816(2)(x)(b)(VI) are required. We

maintained the requirements to qualify for trade confirmation suppression (a quarterly compliant trade percentage of 85% for at least two of the last four quarters) but we revised the language to remove references to the exception reports when describing these requirements. (*Appendix A – Proposed Amendment #3*)

1.3.4 MBS settlement periods

Industry practice for trading of MBS is set under Canada Mortgage and Housing Corporation’s NHA MBS Program. MBS trades occurring from the first business day of the month to the fourth business day of the month cannot be settled prior to the fifth business day due to the time required to determine the remaining principal amount factor and other settlement details. During our review of the T+1 settlement impact on the IDPC rules, we identified the MBS trading rules that require updates for the T+1 settlement cycle and the current industry practices as follows:

(a) Preliminary trade confirmations for MBS

For an MBS trade, IDPC Rule sub-clause 3816(2)(iv)(g) allows a preliminary trade confirmation to be sent that excludes details such as the remaining principal amount factor, accrued interest and total settlement amount. A preliminary trade confirmation applies for trades occurring during the time period when the remaining principal amount factor and final settlement details have not yet been determined. Sub-clause 3816(2)(iv)(g) currently allows a preliminary trade confirmation to be sent for an MBS trade “entered into from the second clearing day before month end to the fifth clearing day of the following month, inclusive”. We have changed this requirement to “entered into from the first business day of the month to the fourth business day of the month, inclusive”, to align with industry practice and the T+1 settlement cycle. We changed “clearing day” to “business day” to maintain consistency within the IDPC rules. (*Appendix A – Proposed Amendment #2*)

(b) New issue delivery of MBS

IDPC Rule clause 4805(4)(iii) sets out the delivery requirement for a MBS new issue trade that is made during a commitment period. We have updated the timelines in clause 4805(4)(iii) for the commitment period and delivery based on the the T+1 settlement cycle and the industry practice under the NHA MBS Program. Since new issue MBS trades occurring from the first business day of the month to the fourth business day of the month cannot be settled prior to the fifth business day, delivery may occur on or after the fifth business day once all the documentation is completed by the issuer. (*Appendix A – Proposed Amendment #9*)

2. Analysis

2.1 Issues and Alternatives Considered

We did not consider alternative proposals as maintaining the existing rules would be inconsistent with a T+1 settlement cycle and create potential confusion for Dealers and clients on settlement and delivery requirements.

2.2 Comparison with similar provisions

The move to a T+1 settlement cycle will align Canada with the U.S. capital markets and other major international capital markets that elect to move to a T+1 settlement cycle. The Proposed Amendments to shorten the timelines for settlement and delivery are consistent with the Securities and Exchange Commission proposed changes to reduce the settlement cycle for securities transactions from T+2 to T+1.

On December 15, 2022, the CSA published for comment proposed revisions to National Instrument 24-101 *Institutional Trade Matching and Settlements*. The CSA's proposed revisions focus on shortening the standard settlement cycle and repeal the exception reporting requirements for institutional (DAP/RAP) trade matching. The Proposed Amendments to repeal the broker-to-broker trade matching exception reports are similar to the CSA's proposal to repeal institutional trade matching exception reports.

3. Impacts of the Proposed Amendments

The move to a T+1 settlement cycle will benefit Dealers, clients and other industry stakeholders by improving the overall market efficiency and reducing credit, market and liquidity risks associated with securities transactions. The Proposed Amendments will benefit Dealers and clients by aligning the rules related to delivery and settlement with the T+1 settlement cycle processes. Dealers will also benefit from the reduced regulatory burden due to the removal of the requirement to file trade matching exception reports. The change in settlement cycle to T+1 will require the Dealers and other industry stakeholders to incur costs to revise their systems, processes and operational procedures. The Proposed Amendments are not expected to have any significant incremental costs to Dealers or clients beyond the operational and system costs associated with the industry's movement to the T+1 settlement cycle.

We believe that the Proposed Amendments will have no material negative impacts on investors, issuers, registrants, the New SRO, CIPF and the Canadian capital markets generally. There are no regional-specific effects as the move to T+1 will impact all industry stakeholders trading in capital markets across Canada and US.

A detailed assessment of the impact of the Proposed Amendments has been prepared and is included as [Appendix C](#).

4. Implementation

Once the recognizing regulators approve the Proposed Amendments, we will publish an implementation notice with an implementation date that aligns with industry's date for the move to a T+1 settlement cycle.

5. Policy Development Process

5.1 Regulatory Purpose

The purpose of these amendments is to support the investment industry's move to T+1 settlement by aligning the New SRO's requirements with the shortened settlement cycle. The Proposed Amendments are considered to be in the public interest because they would:

- foster fair and efficient capital markets and promote market integrity,
- accommodate innovation and ensure flexibility and responsiveness to the future needs of the evolving capital markets, without compromising investor protection, and
- foster efficient and effective cooperation and coordination with the recognizing regulators to ensure regulatory alignment.

The Proposed Amendments do not involve any rules that New SRO, its Members or Approved Persons must comply with in order to be exempted from a requirement of securities legislation.

5.2 Regulatory Process

The Board of Directors of New SRO (**Board**) has determined the Proposed Amendments to be in the public interest and on March 30th, 2023 approved them for public comment.

We consulted with the following New SRO advisory committees on this matter:

- FOAS Capital Formula Subcommittee
- FOAS Operations Subcommittee

We also consulted with the CCMA LRWG and CCMA Operations Working Group.

After considering the comments on the Proposed Amendments received in response to this Request for Comments together with any comments of the recognizing regulators, New SRO staff may recommend revisions to the Proposed Amendments. If the revisions and comments received are not of a material nature, the Board has authorized the President to approve the revisions on behalf of New SRO's behalf. The revised amendments will be subject to approval by the recognizing regulators.

If the revisions or comments are material, New SRO staff will submit the Proposed Amendments, including any revisions, to the Board for approval for republication or implementation as applicable.

6. Appendices

[Appendix A](#) - Black-line comparison of the Proposed Amendments to current rules

[Appendix B](#) - Clean copy of the Proposed Amendments

[Appendix C](#) - Impact Assessment