

## CSA Notice

Adoption of a T+2 Settlement Cycle  
for Conventional Mutual FundsAmendments to  
National Instrument 81-102 *Investment Funds*

August 31, 2017

### Introduction

The Canadian Securities Administrators, other than the British Columbia Securities Commission<sup>1</sup> and the Financial and Consumer Affairs Authority of Saskatchewan<sup>2</sup>, (the **CSA** or **we**) are adopting amendments to National Instrument 81-102 *Investment Funds* (**NI 81-102**) and a consequential amendment to National Instrument 81-104 *Commodity Pools* (**NI 81-104**) to shorten the standard settlement cycle for conventional mutual funds<sup>3</sup> from three days after the date of a trade (**T+3**) to two days after the date of a trade (**T+2**) (the **Amendments**).

This notice also provides guidance to conventional mutual funds regarding their expected adoption of a T+2 settlement cycle in light of the adoption of a T+2 settlement cycle in equity and long-term debt markets.

In some jurisdictions, government ministerial approvals are required for the implementation of the Amendments. Provided all necessary approvals are obtained, we expect the amendments will come into force on November 14, 2017 (see *Effective Date of the Amendments* below).

### Background

On April 27, 2017, we published proposed amendments to NI 81-102 and a consequential amendment to NI 81-104 for a 90-day public comment period (collectively, the **Proposed Amendments**).

We received two comment letters on the Proposed Amendments. The list of the commenters is attached in Annex A to this Notice. We have considered the comments received, and thank all commenters for their submissions. We provide a summary of the comments on the Proposed Amendments, together with the CSA's responses, in Annex B to this Notice.

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<sup>1</sup> The British Columbia Securities Commission did not publish the Proposed Amendments for comment, although staff anticipates doing so in the near future, after obtaining necessary approval.

<sup>2</sup> The Financial and Consumer Affairs Authority of Saskatchewan will advise of their approach in this matter after the provincial by-election in Saskatchewan on September 7, 2017.

<sup>3</sup> A conventional mutual fund is a mutual fund that offers securities in continuous distribution under a simplified prospectus in accordance with National Instrument 81-101 *Mutual Fund Prospectus Disclosure*.

The Amendments are substantially the same as the Proposed Amendments.

## **Substance and Purpose**

On September 5, 2017, markets in the United States are expected to move to a T+2 settlement cycle. As it is in the public interest for Canadian market participants to match U.S. settlement cycles, the CSA published on April 27, 2017 a Notice of Amendments to National Instrument 24-101 *Institutional Trade Matching and Settlement* (**NI 24-101**) (the **NI 24-101 Amendments**) that will harmonize settlement cycles to T+2 in Canada for equity and long-term debt markets to coincide with the adoption of a T+2 settlement cycle in the United States. Please see *CSA Notice Amendments to National Instrument 24-101 Institutional Trade Matching and Settlement and Changes to Companion Policy 24-101CP to National Instrument Institutional Trade Matching and Settlement* published on April 27, 2017.

A trade in a security of a conventional mutual fund is not subject to NI 24-101. However, the underlying equity and long-term debt securities owned by conventional mutual funds are subject to NI 24-101 and will settle at T+2.

Under NI 81-102, conventional mutual fund settlement must follow the requirements below (the **Current Requirements**):

- cash received by a dealer or principal distributor for payment of a mutual fund security must be forwarded to the order receipt office of the mutual fund *as soon as practicable* and in any event no later than the third business day after the pricing date (subsection 9.4(1) of NI 81-102);
- payment of the issue price of a security must be made on or before the third business day after the pricing date (subsection 9.4(2) of NI 81-102);
- in the event that payment is not received by the third business day after the pricing date of the security, the mutual fund must redeem the securities to which the purchase order pertains as if it had received an order for the redemption of the securities on the fourth business day after the pricing date or on the date the mutual fund first knows that the method of payment will not be honoured (subsection 9.4(4) of NI 81-102); and
- a mutual fund must pay the redemption proceeds for securities once a redemption order has been received within three business days after the date of calculation of the net asset value per security used in establishing the redemption price (subsection 10.4(1) of NI 81-102).

We note that this language is broad enough to permit conventional mutual funds to adopt a T+2 settlement cycle as of September 5, 2017 and prior to the coming into force of the Amendments.

## **Guidance on the transition to a T+2 settlement cycle**

Given that the standard settlement cycle for equity and long-term debt market trades in Canada is being shortened from T+3 to T+2, we are of the view that conventional mutual funds must adopt a T+2 settlement cycle on the coming into force of the NI 24-101 Amendments, currently expected on September 5, 2017.

## **Summary of the Amendments**

The Amendments amend sections 9.4 and 10.4 of NI 81-102 to remove references to a T+3 settlement cycle and replace them with references to a T+2 settlement cycle. The Amendments also amend paragraph 9.4(4)(a) of NI 81-102 to require a mutual fund, in the case where payment of the issue price of the securities has not been received, to redeem the securities on the third business day after the pricing date, instead of the fourth. Furthermore, a consequential amendment is made to section 6.3 of NI 81-104 to harmonize it with the amended section 10.4 of NI 81-102.

## **Effective date of the Amendments**

We expect the Amendments will come into force on November 14, 2017, subject to obtaining ministerial approvals in certain CSA jurisdictions. Given prescribed timelines necessary to obtain ministerial approval, November 14, 2017 is the earliest date on which the Amendments can come into force.

Markets in Canada and the United States are expected to transition from a T+3 settlement cycle to a T+2 settlement cycle on September 5, 2017. The NI 24-101 Amendments will come into force concurrently with the date the United States transitions to a T+2 settlement cycle. However, while remote, it is possible that this target date may be deferred if certain regulatory and industry contingencies are not covered on time, which would delay the market transition to a T+2 settlement cycle and postpone the coming into force of the NI 24-101 Amendments. As a result, while we have specified November 14, 2017 as the earliest date when the Amendments will become effective, the Amendments contain language that will allow for the effective date to be postponed in order to match any delay of the coming into force of the NI 24-101 Amendments should it happen after November 14, 2017.

## **Local Matters**

Certain jurisdictions are publishing other information required by local securities legislation. In Ontario, this information is contained in Annex G of this Notice.

## **Annexes**

This Notice includes the following Annexes:

- Annex A: List of Commenters
- Annex B: Summary of comments on the Proposed Amendments and CSA responses
- Annex C: Amending Instrument for National Instrument 81-102 *Investment Funds*
- Annex D: Amending Instrument for National Instrument 81-104 *Commodity Pools*

- Annex E: Blackline of Select Provisions of National Instrument 81-102 *Investment Funds*
- Annex F: Blackline of Select Provisions of National Instrument 81-104 *Commodity Pools*
- Annex G: Local Matters

## Questions

Please refer your questions to any of the following CSA staff:

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## Where to find more information

The text of the Amendments follow after this Notice in Annexes C and D and will also be available on websites of CSA jurisdictions, including:

[www.albertasecurities.com](http://www.albertasecurities.com)

[www.mbsecurities.ca](http://www.mbsecurities.ca)

[www.osc.gov.on.ca](http://www.osc.gov.on.ca)

[www.lautorite.qc.ca](http://www.lautorite.qc.ca)

[www.fcnb.ca](http://www.fcnb.ca)

[nssc.novascotia.ca](http://nssc.novascotia.ca)