

Notice and Request for Comment

Adoption of a T+2 Settlement Cycle for Conventional Mutual Funds

Proposed Amendments to National Instrument 81-102 *Investment Funds*

April 27, 2017

Introduction

The Canadian Securities Administrators, other than the British Columbia Securities Commission¹, (the **CSA** or **we**) are publishing for a 90-day comment period proposed 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 funds² from three days after the date of a trade (**T+3**) to two days after the date of a trade (**T+2**) (the **Proposed Amendments**).

We are also providing 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.

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 is publishing, concurrently with this Notice, a Notice of Amendments that would harmonize settlement cycles to T+2 in Canada for equity and long-term debt markets and amend National Instrument 24-101 *Institutional Trade Matching and Settlement* (**NI 24-101**) (the **NI 24-101 Amendments**) 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 24-101 Institutional Trade Matching and Settlement*.

¹ While the British Columbia Securities Commission is not an authority publishing the Proposed Amendments under this Notice, it anticipates that, subject to receiving the necessary approvals, it will, in the near future, publish for comment proposed amendments that will be consistent with the Proposed Amendments described in this Notice.

² 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*.

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 would 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.

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 the requirement for a dealer or principal distributor to forward the cash or securities received for payment of the issue price of securities of a mutual fund to the mutual fund as soon as practicable would require conventional mutual funds to adopt a T+2 settlement cycle on the coming into force of the NI 24-101 Amendments, currently expected on September 5, 2017.

Additionally, with the Proposed Amendments, we wish to codify the expectation that conventional mutual funds will settle on T+2 to remove any possibility of confusion.

Summary of the Proposed Amendments

The Proposed Amendments amend sections 9.4 and 10.4 of NI 81-102 so as to remove references to a T+3 settlement cycle and replace them with references to a T+2 settlement cycle. The Proposed Amendments also amend paragraph 9.4(4)(a) of NI 81-102 so as 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, rather than on the fourth. Furthermore, a consequential amendment will be made to section 6.3 of NI 81-104 to harmonize

it with the new proposed wording of section 10.4 of NI 81-102.

Transition

Subject to the rule approval process, we anticipate publishing final rules aimed at implementing the Proposed Amendments in the late Summer of 2017 (**Publication Date**). We anticipate the Proposed Amendments will be proclaimed into force expeditiously after the Publication Date (**In Force Date**). After the In Force Date, the T+3 settlement cycle for conventional mutual funds will be replaced by a T+2 settlement cycle.

Local Matters

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

Annexes

This Notice includes the following Annexes:

- Annex A: Amending Instrument for National Instrument 81-102 *Investment Funds*
- Annex B: Amending Instrument for National Instrument 81-104 *Commodity Pools*
- Annex C: Blackline of Select Provisions of National Instrument 81-102 *Investment Funds*
- Annex D: Blackline of Select Provisions of National Instrument 81-104 *Commodity Pools*
- Annex E: Local Matters

Deadline for Comments

Please submit your comments to the Proposed Amendments, in writing, on or before July 26, 2017. If you are not sending your comments by email, please send a CD containing the submissions (in Microsoft Word format).

Where to Send Your Comments

Address your submission to the CSA as follows:

Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission (New Brunswick)

Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon
Superintendent of Securities, Nunavut

Please send your comments only to the addresses listed below. Your comments will be forwarded to the other CSA member jurisdictions.

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor
Toronto, Ontario M5H 3S8
Fax: 416-593-2318
comments@osc.gov.on.ca

Madame Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, rue du square Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal, Québec H4Z 1G3
Fax: 514-864-6381
Consultation-en-cours@lautorite.qc.ca

We would like your input on the proposed amendments. Please include a prominent reference to the subject matter of your comments. For example, please include a subject line similar to the following: “RE: Mutual Fund T+2 Settlement Amendments”.

Comments Received will be Publicly Available

Please note that we cannot keep submissions confidential because securities legislation in certain provinces requires publication of a summary of written comments received during the comment period. In this context, you should be aware that some information which is personal to you, such as your email and address, may appear on certain CSA web sites. It is important that you state on whose behalf you are making the submission.

All comments will be posted on the Ontario Securities Commission web site at www.osc.gov.on.ca and on the Autorité des marchés financiers web site at www.lautorite.qc.ca.

Questions

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

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Where to find more information

We are publishing the proposed amendments with this Notice, as well as blackline version of select provisions of NI 81-102. The Proposed Amendments are also available on websites of CSA members, including:

www.albertasecurities.com

www.fcaa.gov.sk.ca

www.mbsecurities.ca

www.osc.gov.on.ca

www.lautorite.qc.ca

www.fcnb.ca

nssc.novascotia.ca