NORTHERN TRUST

T+2 SETTLEMENT: CANADA

Following the 2008 global financial crisis, the industry increased its focus on reducing risk, achieving greater transparency and improving efficiency in order to establish a safer market environment. As a result, markets across the globe have transitioned, or are currently in the process of transitioning, to a T+2 (trade date plus two days) settlement cycle. Many of the European Union (EU) member states, Hong Kong, Australia and New Zealand have already made the transition; the U.S. and Canada anticipate migration to T+2 in September 2017.

OVERVIEW

Central Securities Depositories (CSDs) are systemically important infrastructures in modern securities markets, performing crucial services to support the registration, safekeeping and settlement of securities. Through the operation of securities settlement systems, CSDs perform a critical role in carrying out the safe and efficient transfer of securities.

The Canadian Depository for Securities (CDS) is the CSD in the Canadian market providing settlement services for most of the equity, federal, provincial, municipal and corporate debt trades transacted on the Toronto Stock Exchange, Canadian Securities Exchange and CanDeal, as well as other global institutional trading networks operating throughout Canada.

The aftermath of the 2008 financial crisis, and more recent industry problems, brought into greater focus the risks and inefficiencies in post-trade processes. In response, the Depository Trust Company (DTC) in the United States commissioned an independent study to analyze the costs, benefits, opportunities and challenges associated with shortening the settlement cycle in the U.S. market to T+1 or T+2. This study confirmed the risk reduction benefits, operational efficiencies and feasibility of a move to T+2 settlement for all impacted securities.
Canada responded to this U.S. announcement in the fall of 2014. The Ontario

Securities Commission (OSC) consulted the Canadian securities industry on moving to a shorter settlement cycle and obtained feedback that due to the interdependencies between the Canadian and U.S. markets, Canada must move to T+2 at the same time as the U.S in September 2017.[1]

The Canadian Capital Markets Association (CCMA) was asked to work with associations representing the different parts of the industry, market infrastructure, service providers, vendors and regulators, promoting and facilitating coordination of the many activities necessary to implement T+2 in conjunction with the U.S. Northern Trust is working closely with the various CCMA working groups and committees to oversee the move to T+2. These groups include the T+2 Steering Committee (T2SC), Operations Working Group (OWG), Mutual Funds Working Group (MFWG), Legal and Regulatory Working Group (LRWG), and Communication and Education Working Group (CEWG). These groups are responsible for assessing the scope, requirements and changes needed to facilitate the implementation to T+2.

[1]40 percent of trades on Canadian exchanges are in interlisted securities and Canada-U.S. cross-border transactions make up nearly 25 percent of the millions of trades annually processed in Canada.

WHAT ARE THE BENEFITS?

Shortening the settlement cycle is expected to yield the following benefits for the industry and market participants:

- Reduced credit and counterparty risk
- Operational process improvements
- Cash deployment efficiencies
- Increased market liquidity
- Lower collateral requirements
- Enhanced global settlement harmonization

KEY CONSIDERATIONS

As a global provider covering multiple markets already operating within a T+2 environment, Northern Trust is ready to support the shortened settlement cycle. In preparation for the move, it is important for our clients to consider the following:

- Under the new shortened settlement cycle, trade allocations, confirmations and affirmations should be completed electronically and as early as possible in the trade lifecycle (ideally on the trade date) using standardized industry tools, messaging or protocols

- Complete and accurate trade instructions should be provided to Northern Trust as soon as possible to allow for early pre-matching and exception handling prior to the settlement date
- On September 5, 2017, as transactions executed on two separate trading days will be settled, clients are encouraged to adequately plan their liquidity requirements as early as possible due to exceptional settlement volume
- Securities on loan or used as collateral will need to be recoverable in sufficient time to enable T+2 settlement of any subsequent sale trades
- Foreign exchange spot trades follow a T+2 settlement cycle; these trades will need to be placed on trade date (T+0) within the same time zone of the associated securities trade to ensure the delivery of the purchased currency without the need to borrow and manage incoming cash
- For dividends and all other types of distributions, the relationship between ex-date and record date will be reduced by one business day

NORTHERN TRUST'S RESPONSE

Northern Trust supports the global efforts to harmonize settlement cycles and has assessed potential systems and processes impacts at each step of the trade lifecycle—pre-trade, trade date, post-trade, settlement date and post-settlement. Leveraging the CCMA resources as a baseline, Northern Trust's corresponding impact assessment activities include:

- Create execution plan and testing strategy
- Work with vendors and other external stakeholders to prepare for changes
- Secure budget and resources needed to make desired changes
- Assess changes needed to systems and processes; identify upstream and downstream dependencies
- Create inventory of impacted systems
- Identify processes and functional areas impacted by the move
- Create program and implement governance

LEARN MORE

Clients should contact their relationship manager for additional information about T+2 Settlement.