



THE INVESTMENT  
FUNDS INSTITUTE  
OF CANADA

L'INSTITUT DES FONDS  
D'INVESTISSEMENT  
DU CANADA

# IFIC Submission

Re: CSA Notice and Request for Comments –Proposed  
Amendments to Accommodate a T+1 Settlement Cycle

January 17, 2024



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Financial and Consumer Services Commission (New Brunswick)  
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Dear Sirs and Mesdames:

**RE: CSA Notice and Request for Comments – Proposed Amendments to Accommodate a T+1 Settlement Cycle**

The Investment Funds Institute of Canada (**IFIC**) appreciates the opportunity to comment on CSA Notice and Request for Comment - *Proposed Amendments to Accommodate a T+1 Settlement Cycle (Consultation)*.

IFIC is the voice of Canada's investment funds industry. IFIC brings together approximately 150 organizations, including fund managers, distributors and industry service organizations to foster a strong, stable investment sector where investors can realize their financial goals. IFIC operates on a governance framework that gathers member input through working committees. The recommendations of the working committees are submitted to the IFIC Board or board-level committees for direction and approval. This process results in a submission that reflects the input and direction of a broad range of IFIC members.

### Summary

We agree that moving the settlement cycles of trades in mutual fund securities to T+1 requires consideration of different factors than those applicable to equity and long-term debt trades **and** that the flexible approach set out in CSA Staff Notice 81-335 *Investment Fund Settlement Cycles (CSN 81-335)* will enable each mutual fund to voluntarily determine whether a T+1 settlement cycle can work for them. We also agree that to accommodate those mutual funds that voluntarily move to a T+1 settlement cycle, technical amendments to section 9.4(4)(a) of NI 81-102 are necessary. Finally, we recommend that the guidance in 81-102

Companion Policy (**81-102CP**) be amended to provide some examples of what constitutes “in writing” to facilitate compliance with new subsection 9.4(0.1) of National Instrument NI 81-102 *Investment Funds* (**NI 81-102**)

### Support For Not Mandating a Shortened Settlement Cycle for Primary Distributions and Redemptions of Mutual Fund Securities From T+2 to T+1.

IFIC strongly supports the CSA’s position in CSN 81-335 proposing to not amend sections 9.4 and 10.4 of NI 81-102 to shorten the settlement cycle for primary mutual fund securities distributions and redemptions from T+2 to T+1. IFIC agrees that moving the settlement cycles of trades in mutual fund securities to T+1 requires consideration of different factors than those applicable to equity and long-term debt trades. IFIC agrees that this flexible approach set out in CSN 81-335 will enable each mutual fund to voluntarily determine whether a T+1 settlement cycle can work for them.

### Support For the Technical Amendments Necessary to Accommodate a T+1 Settlement Cycle

IFIC agrees that to accommodate those mutual funds that voluntarily move to a T+1 settlement cycle, technical amendments to section 9.4(4)(a) of NI 81-102 are necessary. We previously provided our views on that by IFIC’s March 16, 2023, submission<sup>1</sup> to the CSA sent in response to the CSA’s publication of CSN 81-335. IFIC agrees that without the technical amendments, current paragraph 9.4(4)(a) of NI 81-102 would make a voluntary movement to a T+1 settlement cycle by a mutual fund administratively challenging because it could not redeem its securities for non-payment until two days after the settlement date. With the proposed technical amendments, if a mutual fund with a T+1 settlement cycle issues securities of the mutual fund to a purchaser who fails to pay for those securities, the mutual fund will be able to redeem their securities on the next business day after the settlement date.

Subject to our concerns stated below, IFIC supports the CSA’s proposed drafting change to section 9.4(4)(a) of NI 81-102 to refer to the business day after the reference settlement date, rather than the third business day after the pricing date, and to the other drafting changes to clarify that payments must be made no later than the reference settlement date of the purchase order. However, IFIC has one concern with the guidance related to the definition of “reference settlement date”, which we explain below.

### Recommendation to Add Guidance in 81-102 Companion Policy to Provide for Compliance Certainty Regarding the New Definition “Reference Settlement Date”

By adding subsection 9.4(0.1), the proposed amendments provide a new definition, “reference settlement date” which means the earlier of:

- “(a) the business day determined by the mutual fund and disclosed ***in writing*** [*bold and italics added by author*] to the principal distributor or participating dealer referred to in subsection (1), or to the person or company referred to in subsection (1) providing services to the principal distributor or participating dealer, and
- (b) the second business day after the pricing date.”

IFIC strongly recommends that guidance in 81-102CP be amended to provide some examples of what constitutes “in writing” to facilitate compliance, particularly given this “in writing” disclosure requirement did not previously exist.

Currently, the means by which a mutual fund discloses its settlement cycle may vary, whether through the Fundserv FD file (i.e. for those mutual funds that transact purchases and redemptions through Fundserv) and potentially by regulatory documents, agreements, or otherwise. Therefore, IFIC strongly recommends that any changes made to 81-102CP as accompanying guidance explaining what will satisfy compliance

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<sup>1</sup> IFIC Submission, Re: CSA Staff Notice 81-335 *Investment Funds Settlement Cycles* [https://www.ific.ca/wp-content/themes/ific-new/util/downloads\\_new.php?id=28211&lang=en\\_CA](https://www.ific.ca/wp-content/themes/ific-new/util/downloads_new.php?id=28211&lang=en_CA)

with this new “in writing” disclosure requirement should allow for optionality. IFIC proposes the following two options, with either being acceptable.

It is our understanding that the vast majority of retail-offered mutual funds transact the purchases and redemptions of their mutual fund securities through Fundserv. Those mutual funds are required by Fundserv standards to include each mutual fund’s settlement cycle in the Fundserv FD file, which registered dealers use when placing their trade orders. IFIC proposes that a mutual fund’s disclosure via Fundserv through the FD file, any other Fundserv file or otherwise should be one option that satisfies the proposed “in writing” requirement.

As a second option, IFIC proposes that disclosure of a mutual fund’s settlement cycle on the mutual fund’s “designated website” should also be an acceptable means to satisfy the proposed “in writing” requirement. By the CSA’s recent round of amendments under its reducing regulatory burden initiative, the CSA made amendments to National Instrument 81-106 *Investment Fund Continuous Disclosure* by adding Part 16.1 requiring investment funds to designate a qualifying website on which an investment fund intends to post regulatory disclosure. This qualifying website is referred to as a designated website.<sup>2</sup> It is IFIC’s view that use of a mutual fund’s designated website would be a practical and efficient way to satisfy the proposed “in writing” requirement and by the CSA adding guidance to that effect would be in line with the CSA’s recent regulatory burden reduction measures.

Based on our options proposed above, IFIC’s suggested wording for changes to add to 81-102CP as accompanying guidance for the proposed technical amendments is the following:

*“Examples that will be acceptable to satisfy the requirement for a mutual fund to disclose in writing the business day it determines as the reference settlement date under subsection 9.4(0.1)(a) include by a mutual fund doing either of the following:*

- *providing the mutual fund’s settlement cycle via Fundserv through a Fundserv file or otherwise, or*
- *posting the mutual fund’s settlement cycle on the mutual fund’s designated website.”*

IFIC strongly recommends that the CSA not propose guidance that limits or prescribes the “in writing” disclosure requirement.

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## CONCLUSION

IFIC is pleased to have had this opportunity to provide our comments on this consultation. Please feel free to contact me by email at [amitchell@ific.ca](mailto:amitchell@ific.ca). I would be pleased to provide further information or answer any questions you may have.

Yours sincerely,

THE INVESTMENT FUNDS INSTITUTE OF CANADA



By: Andy Mitchell

President & CEO

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<sup>2</sup> See page 3, Workstream Two: Mandate that each Reporting Issuer Investment Fund have a Designated Website – effective January 6, 2022. [https://www.osc.ca/sites/default/files/2021-10/csa\\_20211007\\_41-101\\_reducing-regulatory-burden.pdf](https://www.osc.ca/sites/default/files/2021-10/csa_20211007_41-101_reducing-regulatory-burden.pdf)