The Investment Industry Association of Canada
Association canadienne du commerce des valeurs mobilières

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February 9, 2023

Mr. Gary Gensler
Chair, Securities and Exchange Commission
100F Street, NE
Washington, DC 20549
Chair@sec.gov

Dear Mr. Gensler

Re: File No. S7-05-22 – Compliance Date for T+1

The Investment Industry Association of Canada (IIAC) is the national association representing investment firms that provide products and services to Canadian retail and institutional investors. We represent the vast majority of market registrants impacted by the Canadian Securities Administrators (CSA) Proposed Amendments to National Instrument 24-101 Institutional Trade Matching and Settlement and Proposed Changes to Companion Policy 24-101 Institutional Trade Matching and Settlement in anticipation of a T+1 settlement cycle for equity and long-term debt market trades in Canada.

Canadian industry participants fully support the mandatory shortening of the settlement cycle to achieve the policy objectives to promote investor protection, reduce risk, and increase operational efficiency. We have been diligently working to implement T+1 with U.S. counterparts. We successfully moved with the U.S. to a shorter settlement cycle in 1995 (T+5 to T+3) and in 2017 (T+3 to T+2).

The obligatory transition to T+1 involves significant changes across the industry at financial institutions as well as asset managers, institutional investors, custodians, clearing agencies, marketplaces, and third-party service providers. Extensive resources are required to implement the changes, which will then need to undergo rigorous internal testing followed by industry testing. This transition is also a materially greater challenge than the 2017 move from T+3 to T+2 due to:

- Moving to T+2 still left a full day and a half, plus an overnight batch cycle, to correct trading errors and affirm trades for settlement whereas for T+1, there is effectively half a day and no batch cycle;
- Foreign exchange spot transactions are on a T+2 settlement cycle –so was not an issue for T+2 - but will be more challenging as the FX and securities settlement cycles diverge;
- To facilitate greater automation, CDS (DTCC’s Canadian equivalent) is replacing its CDSX clearing, settlement, and corporate actions systems as part of its post-trade modernization project (PTM). The schedule for the T+1 and PTM projects overlap, and a September 3, 2024 date for T+1 would help ease the transition of both projects for US and Canadian market participants.

The capital markets of Canada and the United States are highly integrated. There are hundreds of equities interlisted in Canada and the U.S. In July 2022, the average interlisted trade volumes totalled 700 million shares daily, with over 437 million trading south of the border and 263 million to the north. An estimated one-quarter of total trade-processing volume in Canada is comprised of Canadian-American interlisted securities.

These mainly blue-chip stocks are particularly important high-quality, liquid investments for governments, pension funds, retirement plans, insurance companies and retail investors. It is critical that Canada and the United States transition to T+1 on the same day to avoid disruption to this crucial cross border commerce.

We are writing to request that the Securities and Exchange Commission (SEC) confirm September 3, 2024, (Labour Day weekend) as the compliance date for the move to shorten the standard settlement cycle for most broker-dealer transactions from two business days after trade date (T+2) to one (T+1). It is a more prudent date, which would balance the risk of this major transition with the policy objective to promote investor protection, reduce risk, and increase operational efficiency. By copy of this letter, we are asking that the Canadian Securities Administrators adopt the same date.

We note that the transition to T+2 was completed over the Labour Day weekend. To minimize systemic risk a long weekend is preferred for major cross-industry implementations, because of the extra day to validate that the transition went as planned and time to implement a fallback to T+2 if necessary. Transitions at quarter-ends, such as March 31st, are best avoided because they are significant trading days in both value and volume, as well as entitlement/corporate action dates. These factors present additional risk to the settlement cycle transition. The next common holiday long weekend for Canada and the United States after Q1/2024 is Labour Day.

We look forward to hearing from you.

Yours sincerely,

Laura Paglia, Chief Executive Officer, IIAC

CC: Chief Executives/Chairs of the Canadians Securities Administrators