

**CSA Staff Notice 24-316*****Feedback on CSA Consultation Paper 24-402 Policy Considerations  
for Enhancing Settlement Discipline in a T+2 Settlement Cycle  
Environment***

**August 3, 2017**

**Introduction**

On August 18, 2016, the Canadian Securities Administrators (the **CSA** or **we**) published for comment CSA Consultation Paper 24-402 *Policy Considerations for Enhancing Settlement Discipline in a T+2 Settlement Cycle Environment* (**Consultation Paper**). The Consultation Paper sought stakeholder views on the adequacy of the settlement discipline regime in Canada in anticipation of the transition this September to a standard settlement cycle of two days after the date of a trade (**T+2**) from the current three days after the date of a trade (**T+3**). The purpose of this Notice is to provide a summary of the feedback we received on the Consultation Paper and our response to the feedback.

Overall, commenters believe that the existing settlement discipline regime is adequate in promoting timely settlement and supporting market efficiency in a T+2 settlement cycle environment. Consequently, we do not propose to bring forward at this time any additional measures arising from the Consultation Paper.

However, we highlight in this Notice a particular theme that emerged from the feedback on the Consultation Paper. Currently, marketplaces report their trades to CDS Clearing and Depository Services Inc. (**CDS**) by way of an end-of-day batch file. A number of commenters expressed concern that the lack of real-time or intra-day batch reporting of trades poses challenges for trade reconciliation purposes in a T+2 environment, which may cause some settlement delays. In this Notice, we describe this feedback issue in more detail and indicate next steps.

**Background**

The Consultation Paper was published as part of a CSA notice and request for comment on proposed amendments to National Instrument 24-101 *Institutional Trade Matching and Settlement* and changes to Companion Policy 24-101 *Institutional Trade Matching and Settlement* (together, **NI 24-101**).<sup>1</sup> Many of the amendments and changes to NI 24-101, which

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<sup>1</sup> See CSA Notice and Request for Comments: Proposed Amendments to National Instrument 24-101 *Institutional Trade Matching and Settlement*, Changes to Companion Policy 24-101 *Institutional Trade Matching and Settlement*, and CSA Consultation Paper 24-402 *Policy Considerations for Enhancing Settlement Discipline in a T+2 Settlement Cycle Environment*, August 18, 2016, (2016), 39 OSCB 7225 (the **CSA Proposing Notice**). The Consultation Paper is in Annex E of the CSA Proposing Notice, at 39 OSCB 7276.

were subsequently adopted by the CSA,<sup>2</sup> are related to the transition to a T+2 settlement cycle (the **NI 24-101 Revisions**).<sup>3</sup>

The Consultation Paper provided an overview of existing settlement discipline measures in the Canadian equity and debt markets, and sought stakeholder views on the adequacy of today's settlement discipline regime for Canadian markets in a T+2 settlement cycle environment. We explored certain policy approaches to address the risk that the transition to a standard T+2 settlement cycle might increase settlement failures in our markets. In particular, we sought comments on whether:

- additional settlement discipline measures might be required, including additional amendments to NI 24-101; and
- other settlement discipline mechanisms for the Canadian equity and debt markets might be needed to deter settlement failures, such as a settlement-fail “penalty”<sup>4</sup> mechanism or a close-out or forced buy-in requirement.

Such measures were to be over and above the adopted NI 24-101 Revisions.<sup>5</sup>

## Consultation process

The comment period ended on November 16, 2016 and the CSA received seven comment letters on the NI 24-101 Revisions and the Consultation Paper. Five comment letters specifically addressed the questions in the Consultation Paper. A list of the five commenters is attached in Annex A to this Notice. We provide a summary of the comments, together with our responses, in Annex B to this Notice.

We thank those who have contributed to our consultation process by responding to the questions in the Consultation Paper. We appreciate the time that stakeholders have taken to provide thoughtful comments. We have gathered useful information from this process, which will inform

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<sup>2</sup> See CSA Notice of Amendments to National Instrument 24-101 *Institutional Trade Matching and Settlement*, Changes to Companion Policy 24-101 *Institutional Trade Matching and Settlement*, April 27, 2017, (2017), 40 OSCB 3941 (**CSA Adopting Notice**).

<sup>3</sup> The move to a T+2 settlement cycle is expected to occur on September 5, 2017, at the same time as the markets in the United States are expected to move to a T+2 settlement cycle. See the CSA Adopting Notice.

<sup>4</sup> See footnote 3 of the Consultation Paper, which briefly discusses the expression “penalty” as follows: “we use “penalty” in a broad, colloquial sense only, and not as a formal securities law term. See discussion in Part 6 of Consultation Paper 24-402 *Policy Considerations for Enhancing Settlement Discipline in a T+2 Settlement Cycle Environment*. For certain CSA jurisdictions, a securities regulatory authority’s power to impose fines or penalties for failure to settle a trade on time would have to be explicitly authorized by securities legislation.”

<sup>5</sup> Such measures were also to be over and above the changes being made by the industry to the rulebooks, procedures, standard agreements and other documentation of the marketplaces, self-regulatory organizations (**SROs**) and clearing agencies to reflect the move to T+2 from T+3. For a discussion of these industry changes, see the CSA Proposing Notice at p. 7226-7, and the Consultation Paper at p. 7280. For example, the Investment Industry Regulatory Organization of Canada (**IROC**) has adopted amendments to its Universal Market Integrity Rules, Dealer Member Rules, and Form 1 to facilitate the investment industry’s move to T+2 settlement. See IROC Notice 17-0133 *Amendments to facilitate the investment industry’s move to T+2*, dated June 29, 2017, available at: [http://www.iroc.ca/Documents/2017/54f535f0-7355-4e86-90ba-28342e927f7d\\_en.pdf](http://www.iroc.ca/Documents/2017/54f535f0-7355-4e86-90ba-28342e927f7d_en.pdf).

our approach going forward.

## **Feedback from consultation**

### ***(i) General view on adequacy of the current settlement discipline regime***

Most commenters express the view that the existing settlement discipline regime is adequate in ensuring timely settlement of trades in our equity and debt markets in a T+2 settlement cycle environment. They note that improving “same-day-affirmation” (**SDA**) rates for institutional trades is unnecessary to move to a T+2 settlement cycle. While increasing automation could lead to improved SDA efficiencies in trade confirmation-affirmation processes, those efficiencies would largely depend on market participants embracing such technology on an industry-wide scale. Stakeholders feel that the current NI 24-101 requirements, including the exception reporting rule, will sufficiently motivate firms to timely match and settle their trades in a T+2 settlement environment.

### ***(ii) Concern with lack of real-time or intra-day batch trade reporting***

#### **- Stakeholder comments**

Despite the above, a number of commenters express concern with the current practice by marketplaces<sup>6</sup> in Canada to report executed trades to CDS in an end-of-day batch file, which, in turn, delays CDS’ domestic marketplace trade reconciliation and reporting processes. One commenter suggests that, “while [it] considers the existing settlement discipline regime in Canada to be adequate, it is not optimal in order to promote timely settlement and support market efficiency in a T+2 settlement cycle environment.” The commenter states that the ability for market participants to reconcile their marketplace trading activity should be improved. It compares the current marketplace practice in Canada to report transactions to CDS via an end-of-day file with the requirement in the United States (**U.S.**) for marketplaces to report their transactions in real-time to National Securities Clearing Corporation (**NSCC**).<sup>7</sup> The commenter suggests that a similar requirement for marketplaces in Canada to report trades in real-time (or near real-time) to CDS would allow market participants to enhance their trade reconciliations by moving the timing of these reconciliations from one day after the date of trade (**T+1**) to either intraday or end-of-day on trade date (**T**).

Another commenter notes that its members have indicated that a source of delay is the various

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<sup>6</sup> A marketplace includes an exchange and an alternative trading system (**ATS**). See definitions “marketplace” and “alternative trading system” in section 1.1 of National Instrument 21-101 *Marketplace Operation* (**NI 21-101**) and subsection 1(1) of the *Securities Act* (Ontario).

<sup>7</sup> NSCC is the U.S. clearing agency that performs a central counterparty (**CCP**) clearing role for the U.S. equity markets similar to the CCP role performed by CDS for the Canadian equity markets. Since 2014, NSCC’s rules require that all locked in trades from exchanges, ATSs and other qualified sources be submitted to NSCC in real-time, without pre-netting or batching of trades. See Securities and Exchange Commission, Release No. 34-69890; File No. SR-NSCC-2013-05, June 28, 2013; available at: <https://www.sec.gov/rules/sro/nscc/2013/34-69890.pdf>; and Securities and Exchange Commission, Release No. 34-76462; File No. SR-NSCC-2015-004, November 17, 2015; available at: <https://www.sec.gov/rules/sro/nscc/2015/34-76462.pdf>.

reporting of trade details from the exchanges or CDS. Some of this reporting is received by dealers at end-of-day or as part of an overnight batch process. It notes that this slows down the ability of dealers to identify any trade issues in need of remediation and to work with counterparties to get them resolved expeditiously. The commenter suggests that the industry would benefit from more real-time reporting, such as intraday files, from the exchanges or CDS.

Another commenter notes that the biggest factor in improving SDA rates would be moving from an overnight batch system to infrastructure that allows multiple intraday batches, or more near-real-time or real-time processing, although it warned that this could cost the industry more than moving to T+2 settlement.

- *The current process*

At the end-of-day on T, each marketplace transmits to CDS an “exchange trade input file” containing all trades executed on the marketplace that day.<sup>8</sup> The trade information from the marketplaces is entered automatically into CDS’ systems on the evening of T. Most dealers will, in turn, enter on T the transactions that they believe they, or their correspondent introducing dealers, have executed on the marketplaces, generally through the systems of the dealers’ back-office service providers. The trade information from the service providers will then be entered automatically into CDS’ systems on the evening of T. On the morning of T+1, CDS compares the marketplace trade information with the details provided by the service providers through CDS’ “domestic exchange trade reconciliation and reporting processes”. The CDS reconciliation process generates exception records for any differences found, compares the discrepancies against any CDS participant-input “domestic trade tolerance”<sup>9</sup> levels, and reports these discrepancies back to the relevant participants or their respective service providers. Dealers and their clients will reconcile their trades and correct any errors in the morning of T+1 after receiving the CDS discrepancies report.

While marketplace trades are “locked-in” (i.e., they are submitted to CDS in “confirmed” status) and are considered to reflect the accurate terms of a trade, mistakes do happen from time to time. Dealer firms must reconcile their records between front-end trade applications and middle-office position management systems. Typically, this is required for firm-wide risk management purposes and maintaining daily accurate regulatory capital and margin calculations.<sup>10</sup> Continual reconciliation between systems, both internal and external, is the primary measure for ensuring

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<sup>8</sup> Under CDS *Trade and Settlement Procedures* Release 12.1 – September 26, 2016, at 3.1, exchange trades include trades executed on an ATS.

<sup>9</sup> Under CDS *Trade and Settlement Procedures* Release 12.1 – September 26, 2016, at 3.5, a CDS participant can specify an acceptable tolerance level with respect to discrepancies between the trade details that an exchange sent to CDS and the reconciliation file that the participant provides to CDS.

<sup>10</sup> Trade reconciliation is fundamental to ensuring compliance with various regulatory requirements. For example, see IIROC Dealer Member Rule 2600 (Internal Control Policy Statements), which includes the following requirement in Internal Control Policy Statement 7 (Pricing of Securities) under Minimum Required Firm Policies and Procedures: “7. Procedures are in place to ensure daily mark to market of a Dealer Member’s security positions “owned and sold short” for profit and loss reporting in accordance with SRO requirements” (available at: [http://www.iroc.ca/Rulebook/MemberRules/Rule02600\\_en.pdf](http://www.iroc.ca/Rulebook/MemberRules/Rule02600_en.pdf)).

that discrepancies are identified and resolved as early in the trade lifecycle as possible.<sup>11</sup>

CDS offers CCP clearing and settlement services<sup>12</sup> for eligible marketplace trades through its Continuous Net Settlement (CNS) service.<sup>13</sup> In today's T+3 settlement environment, the CNS netting and novation process (which is an overnight cycle) begins late in the evening on T+1.<sup>14</sup> Participants are able to reconcile their books and records with the trade details of the marketplaces and CDS generally on the morning of T+1, before the start of the CNS netting and novation process.<sup>15</sup> When the industry migrates to a T+2 settlement cycle this September, the CNS netting and novation process will begin late in the evening on T. As a result, if marketplaces continue to report their trades to CDS by way of an end-of-day batch file, dealers and their clients might be unable to reconcile their books and records and correct trade errors prior to the commencement of CNS netting and novation.<sup>16</sup>

### **Next steps: review of marketplaces' timely trade reporting practices and engagement with industry**

NI 21-101 requires all trades executed on a marketplace to be reported to a clearing agency.<sup>17</sup> However, it does not prescribe when the trade should be reported to the clearing agency. Ideally, if the timelines for clearing and settling a trade are to be met,<sup>18</sup> the trade should be reported to the clearing agency as soon as practicable after it is executed.

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<sup>11</sup> Ayesha Khanna, *Straight Through Processing for Financial Services: The Complete Guide*, Academic Press, 2008.

<sup>12</sup> A marketplace trade may be settled in CDS either (i) without pre-settlement netting using the "Trade-For-Trade" service, or (ii) with pre-settlement novation and netting with CDS acting as CCP.

<sup>13</sup> In the CNS service, CDS substitutes itself as the counterparty for each original marketplace trade through a netting and novation process, becoming the buyer to every seller and the seller to every buyer. The CNS netting and novation process results in CDS guaranteeing the settlement of CNS trades that have reached "value date" (currently, T+3). During the time between the trade on T and novation, CDS's participants are exposed to the bilateral risk of default of the participant on the other side of the trade. According to CDS documentation, novation in CNS occurs on the morning of value date minus one business day (or "V-1"). See CDS Financial Risk Model, Version 10.1, September 2016; available at: <https://www.cds.ca/resource/en/56> (p. 28, "5.2.1. Timing of Novation").

<sup>14</sup> We understand that the CNS netting and novation process begins after 22:30 hours ET on T+1.

<sup>15</sup> For a discussion of CDS' processes, see from CDS' Website: <https://www.cds.ca/cds-products/cds-clearing/trade-clearing-and-settlement/sources-of-exchange-trades>. Also the following CDS procedures are available: CDS Clearing and Depository Services Inc., CDS Reporting Procedures, Release 12.1 – September 26, 2016; available at: <https://www.cds.ca/resource/en/64>; CDS Clearing and Depository Services Inc., Trade and Settlement Procedures, Release 12.1 – September 26, 2016; available at: <https://www.cds.ca/resource/en/67>; and CDS Clearing and Depository Services Inc., CDS Batch and Interactive Services – Technical Information, Release 22.1 – March 27, 2017; available at: <https://www.cds.ca/resource/en/74>.

<sup>16</sup> In its T+2 White Paper, CDS notes that, currently, trade reporting is provided overnight, but acknowledges that in a T+2 settlements cycle "receiving trade reporting intraday would be beneficial, albeit not required." See CDS Move to T+2, September 2015; available at: <https://www.cds.ca/resource/en/174>, at p. 7. CDS suggested at p. 5 that it would "[i]nvestigate providing participants with an error correction interface through which participants could process their own error corrections (currently participants provide CDS with their error corrections, and then CDS processes the corrections manually on behalf of the participant.)"

<sup>17</sup> See NI 21-101, subsection 13.1(1).

<sup>18</sup> See, for example, the timelines in Part 3 (institutional trade matching (**ITM**) by noon on T+1) and Part 7 (standard settlement date) of NI 24-101.

We propose to assess whether the lack of real-time or intra-day batch reporting of trades by marketplaces poses challenges for trade reconciliation purposes in a T+2 environment. In particular, we will seek to understand

- (i) whether the lack of real-time or intra-day batch reporting might have a detrimental impact on timely settlement, and
- (ii) what the costs might be to industry in moving to real-time or intra-day batch reporting of trades.

CSA staff will engage with marketplaces, CDS, IIROC, the Canadian Capital Markets Association (**CCMA**), and other relevant stakeholders as we examine this matter. While our assessment will not be completed prior to the transition to T+2 settlement in September, we propose to determine if any action on this issue may be warranted by early-2018.<sup>19</sup> Among other things, staff may consider policy approaches that could include rule changes to require or encourage more timely trade reporting to clearing agencies. Any proposed new or amended rules – whether proposed by the CSA, IIROC or CDS – would be subject to a public comment process and, in the case of IIROC or CDS rules, regulatory approval by certain CSA members.

## Questions

Questions with respect to this Notice may be referred to:

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<sup>19</sup> We note that this Notice does not describe all factors that are relevant for discussion with the industry. There may be issues that have not been identified, particularly with respect to costs and resources required to adopt real-time or near-real-time reporting, and regarding, more generally, the implications for clearing and settlement processing in Canada.

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## **ANNEX A**

### **LIST OF COMMENTERS**

The following is a list of those individuals and organizations that provided comments specific to the Consultation Paper:

Barbara Amsden  
CIBC World Markets Inc.  
Investment Industry Association of Canada  
Omgeo Canada Matching Ltd.  
RBC Dominion Securities Inc.

## ANNEX B

### **FEEDBACK ON CSA CONSULTATION PAPER 24-402 *POLICY CONSIDERATIONS FOR ENHANCING SETTLEMENT DISCIPLINE IN A T+2 SETTLEMENT CYCLE ENVIRONMENT***

<b>Summary of comments</b>	<b>CSA Response</b>
<p>1. In your opinion, is the existing settlement discipline regime adequate to promote timely settlement and support market efficiency in a T+2 settlement cycle environment? Please provide reasons for your response, including, if available, any quantitative analysis to support your reasons.</p> <p>Generally, commenters believe that the existing settlement discipline regime is adequate in promoting timely settlement and in supporting market efficiency in a T+2 settlement cycle environment.</p> <p>A commenter suggests that, while it considers the existing settlement discipline regime in Canada to be adequate, it is not optimal in order to promote timely settlement and support market efficiency in a T+2 settlement cycle environment. The commenter states that the ability for market participants to reconcile their marketplace trading activity should be improved. It notes that, in the U.S., exchanges must report transactions to the NSCC in real-time, while in Canada this information is reported to CDS via an end-of-day file. If a real-time or near-real time reporting process were implemented in Canada it could enable market participants to move up trade reconciliations from T+1 to either intra-day or end-of-day on T.</p> <p>Another commenter advocated for accurate and timely post-trade pre-settlement activity.</p> <p>Another commenter notes that further information would be useful, including</p> <ul style="list-style-type: none"><li>- disclosure of ITM rates and fails, and</li><li>- information regarding tools available to</li></ul>	We do not propose to bring forward at this time any additional measures arising from the Consultation Paper. However, we propose to assess (especially after the transition to T+2 settlement later this year) whether the lack of real-time or intra-day batch reporting of trades to CDS by the marketplaces poses challenges for dealers' trade reconciliation purposes in a T+2 environment. CSA staff will engage with marketplaces, CDS, IIROC, the CCMA and other relevant market participants as we examine this matter.

Summary of comments	CSA Response
regulators in the event that a firm's rates fall outside of reasonable.	
2. Given that international research suggests that achieving SDA rates of over 90 percent may be important in delivering greater settlement efficiency and lower rates of settlement failures, is increasing SDA rates in the Canadian markets an important pre-condition to transitioning to T+2?	
<p>Overall, commenters agree that increasing SDA rates in the Canadian market is not a pre-condition to transitioning to T+2. However, they also agree that increased SDA rates would result in increased settlement efficiency.</p> <p>One commenter notes that achieving the highest possible rate of SDA is dependent on improvements generally across the whole industry and specifically in the middle-office.</p>	<p>We do not propose any further amendments to NI 24-101 at this time. See also our response to Question 1 above.</p>
<p>3. Is a higher degree of automation in the trade confirmation-affirmation processes the key to delivering higher SDA rates? Please provide reasons for your answer.</p>	
<p>Commenters indicate that a higher degree of automation in trade confirmation-affirmation processes would lead to higher SDA rates. One commenter notes that while greater automation would likely contribute to SDA, the biggest factor in improving SDA rates would be moving from an overnight batch system to multiple intraday batches or real-time processing. However, the commenter notes this could cost more than moving to T+2.</p> <p>Another commenter notes that real-time automation would require significant re-</p>	<p>See our response to Question 1 above. In assessing whether the lack of real-time or intra-day batch reporting of trades to CDS by the marketplaces poses challenges for dealers' trade reconciliation purposes in a T+2 environment, we would also consider what the costs might be to industry in moving to real-time or intra-day batch reporting of trades.</p>

Summary of comments	CSA Response
<p>engineering and cost outlay for the industry for a relatively small benefit.</p> <p>Finally, a different commenter noted that, while automation is key, the primary issue is having all trading partners also embrace that same level of automation.</p>	
<p>4. What actions could trade-matching parties take to accelerate the timing of the release of allocations and settlement instructions in a T+2 settlement environment?</p>	
<p>One commenter is of the view that the primary area of process improvement is to move from end-of-day batching to intra-day or near real-time processing.</p> <p>Another commenter notes that it is unlikely there will be much movement by choice given that there is no evidence of a problem; it suggests that there is no indication that the U.S. or Europe intends to further shorten the settlement cycle at this time.</p>	<p>See our response to Question 1 above. While we are not aware of any concrete plans in other jurisdictions to further shorten the settlement cycle to T+1, we note that the SEC has requested its staff to undertake a study on, among other things, the potential impacts associated with moving to a shorter settlement cycle beyond T+2, including identification of technological and operational improvements that can be used to facilitate a movement to a shorter settlement cycle.</p>
<p>5. Should the ITM deadline be amended, such that the ITM policies and procedures of a registered dealer or adviser would have to be designed to match a <i>DAP/RAP trade</i> no later than midnight on T instead of noon on T+1? Please provide reasons for your answer. If you believe the ITM deadline should be amended, but not to a midnight on T deadline, then please give your views on how the instrument should be amended.</p>	
<p>Overall, commenters agree that the current ITM deadline of noon on T+1 is sufficient to promote timely trade matching behaviour/performance in a T+2 environment.</p> <p>One commenter notes that trades executed late in the day by clients in non-North American time zones could be challenging given that those clients are typically not in the office beyond 14:00 EST.</p> <p>Another commenter notes that changes to the ITM deadline could unnecessarily divert attention and resources from other day-to-day responsibilities.</p> <p>One commenter indicates its support for a proposal to move the ITM deadline to midnight on T, which would assist in focusing those</p>	<p>As noted, we do not propose any further amendments to NI 24-101 at this time. See also our response to Question 1 above.</p>

Summary of comments	CSA Response
<p>trades confirmed on T+1 or later.</p> <p>One commenter reiterates that moving from the current batch model to real-time trade reporting could be costly.</p> <p>6. Alternatively, should the ITM threshold be amended, such that a registered firm would be required to complete and file an exception report if it fails to meet a threshold of 95% (instead of 90%) of trades, measured by both value and volume, matched by noon on T+1 during a calendar quarter? Please provide reasons for your answer. If you believe the ITM threshold should be amended, but not to a 95% threshold, then please give your views on how the Instrument should be amended.</p>	
<p>Most commenters consider that the 90% threshold works well, with some noting that they are consistently above that threshold. A commenter notes that it would be comfortable meeting a 95% threshold by noon on T+1 measured by number (volume) of trades, but not yet measured by dollar value of trades.</p> <p>One commenter notes that, while such a move would improve performance, it would not be as effective as moving the deadline to midnight on T.</p> <p>Another commenter indicates that on October 30, 2016, IROC proposed to reduce the threshold to 85% for broker-to-broker (dealer) trade matching.</p> <p>Another commenter notes that changes to the ITM threshold could unnecessarily divert attention and resources from other day-to-day responsibilities.</p>	<p>As noted already, we do not propose any further amendments to NI 24-101 at this time. See also our response to Question 1 above.</p>
<p>7. Are there other pre-settlement measures that could be taken to encourage prompt confirmation and affirmation of a trade and communication of allocations and settlement instructions by trade-matching parties? If so, please describe such measures in reasonable detail.</p>	
<p>One commenter notes that confirmation rates could be increased by eliminating a common practice for counterparties and custodians not to confirm trades within CDS until their clients have the available position or cash in their</p>	<p>See our response to Question 1 above.</p>

Summary of comments	CSA Response
<p>account.</p> <p>Another commenter indicates that a failure by some smaller buy-side firms to use electronic communication mechanisms to report trade details, instead sending instructions by fax, delays processes. This commenter encouraged electronic communication to improve confirmation and affirmation rates, while also reducing the likelihood of errors or omissions.</p> <p>Another commenter notes that mandated, and monitored, timing standards are likely the most effective mechanism, similar to the two-hour trade confirmation response window in Europe.</p> <p>Another commenter notes that there is “not a burning need for action” and that regulators need to focus on the firms that are the farthest below the 90% threshold.</p>	
<p>8. Should NI-24-101’s current principles-based settlement rule be amended to incorporate a prescriptive T+2 rule? Please provide reasons for your answer.</p>	
<p>Most commenters agree that the existing principles-based regime is effective and should continue with the T+2 settlement regime.</p>	<p>As noted above, we do not propose any further amendments to NI 24-101 at this time. See also our response to Question 1 above.</p>
<p>One commenter notes, in particular, that timing targets for completing processes, and thresholds that can be modified in accordance with industry objectives, are more favourable in comparison to prescriptive rules that describe how a process should be performed.</p>	
<p>9. Is the current settlement discipline regime in Canada sufficient to resolve settlement failures expeditiously or are other mechanisms needed?</p> <ul style="list-style-type: none"> <li>• If other mechanisms should be imposed, what should those mechanisms be?</li> <li>• To which types of trades, securities or markets should such mechanisms apply?</li> <li>• How would a settlement failure be determined or defined for the purposes of such mechanisms?</li> <li>• Who should establish and administer such mechanisms (for example, an SRO, clearing agency or CSA regulator)?</li> </ul>	
<p>Those that responded to this question agree that, given the high settlement rates, the current</p>	<p>See our response to Question 1 above.</p>

Summary of comments	CSA Response
discipline regime is sufficient and no additional disciplinary measures are necessary.	
10. Are there other aspects of the securities transaction processing chain that may be a source of delay in meeting a T+2 settlement timeline? If so, please describe them and identify any additional settlement discipline measures that could be taken to address such delays. Please describe such measures in reasonable detail.	
<p>One commenter notes that its members have indicated that a source of delay is the various reporting of trade details from the stock exchanges or CDS. Some of this reporting is received by dealers at end-of-day or as part of an overnight batch process. It notes that this slows down the ability of dealers to identify any trade issues in need of remediation and working with counterparties to get them resolved expeditiously. The commenter suggests that the industry would benefit from more real-time reporting, such as intraday files, from the exchanges or CDS.</p> <p>Another commenter indicates that clients with primarily global complex custodial relationships with jurisdictional interplay and multiple dependencies may lead to delays in matching and settlement, but does not foresee it causing a material impact to overall settlement rates.</p>	<p>As noted above, we propose to assess (especially after the transition to T+2 settlement later this year) whether the lack of real-time or intra-day batch reporting of trades to CDS by the marketplaces poses challenges for dealers' trade reconciliation purposes in a T+2 environment. CSA staff will engage with marketplaces, CDS, IIROC, the CCMA and other relevant market participants as we examine this matter.</p>
<b>Miscellaneous comments</b>	
<p>One commenter adds that effective regulation is a balancing act, between investors, issuers and registrants, and between the need for innovation, efficiency and cost-effectiveness, and safety and stability. The person notes that a challenge to achieving efficiencies in clearing and settlement occurs where the cost for any firm does not justify the investment as a result of the “free-rider” effect. The person also notes that the CSA could sponsor efficiencies benefitting investors, firms, and those working in the industry, including regulators. The commenter cites a number of examples including the elimination of physical securities, the requirement that investments under</p>	<p>We thank the commenter for these remarks.</p>

<b>Summary of comments</b>	<b>CSA Response</b>
securities legislation have a security identifier, permitting the access-equals-delivery model for prospectuses, and pushing for centralized collection and dissemination of information about the Canadian securities marketplace.	