CIRO Bulletin

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Rules Bulletin > Implementation Bulletin

Distribute internally to:

Institutional, Internal Audit, Legal and Compliance, Operations, Regulatory Accounting, Research, Retail, Senior Management, Trading Desk, Training

Rule Connection: UMIR / IDPC Rules

Division: Investment Dealer

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Amendments to UMIR and IDPC Rules to facilitate the investment industry's move to T+1 settlement

Executive Summary

The Canadian Securities Administrators (**CSA**) have approved amendments to the Universal Market Integrity Rules (**UMIR**) and Investment Dealer and Partially Consolidated Rules (**IDPC**) (collectively, the **Amendments**) to facilitate the investment industry's move from a trade date plus two business days (**T+2**) settlement cycle to a trade date plus one business day (**T+1**) settlement cycle. The Amendments were published for comment on April 20, 2023 in CIRO Bulletin 23-0054 - Amendments to facilitate the investment industry's move to T+1 settlement (**Bulletin 23-0054**).

The primary objective of the Amendments is to ensure that CIRO's requirements support the investment industry's move to T+1 settlement.

We are also publishing an updated version of GN-4800-21-001 - Guidance on the regular settlement date to be used for certain foreign exchange hedge trades (the **Guidance**). We made changes to the Guidance to reflect the Amendments and recommended practices under T+1 settlement.

The Amendments and Guidance will be effective as indicated in section 5 of this bulletin.

1. Background

Currently, the standard securities settlement cycle in Canada and the United States (**U.S.**) is two days after the date of the trade. On February 15, 2023, the Securities and Exchange Commission adopted rule changes to shorten the standard settlement cycle from T+2 to T+1. It is important that Canada's settlement cycle continues to be harmonized with the U.S. settlement cycle, because of the close connections between our capital markets. Canada plans to implement the move to T+1 on May 27, 2024 which is one day in advance of the U.S.' move to T+1.

Additional background and details of the Amendments are included in Bulletin 23-0054.

2. Comments received

We received one comment letter in response to Bulletin 23-0054. We have not provided a response to the comment letter because the commenter did not provide any specific comments on the proposal.

3. The Amendments

The Amendments:

- harmonize the UMIR and IDPC Rules with the T+1 settlement cycle by shortening delivery and settlement periods by one day,
- modernize the IDPC Rules related to buy-ins and physical delivery,
- repeal requirements for Dealer Members (**Dealers**) to file broker-to-broker trade matching exception reports, for consistency with the proposed revisions to National Instrument 24-101 – *Institutional Trade Matching and Settlement,* and
- align IDPC Rules referencing settlement periods of mortgage-backed securities to the industry settlement periods set under the NHA Mortgage-Backed Securities Program.

A blackline of the Amendments[1] are set out in Appendix A. A clean copy of the Amendments is set out in Appendix B.

4. Guidance

Concurrent with this bulletin, we are publishing Guidance Note GN-4800-23-001 - Guidance on the regular settlement date to be used for certain foreign exchange hedge trades. The Guidance reflects the change in settlement date and recommended practice under T+1 settlement and replaces GN-4800-21-001.

5. Implementation

The Amendments and the Guidance will be effective on May 27, 2024. In the event there is a delay in the industry's implementation of T+1 settlement, we will also delay our implementation of the Amendments and Guidance accordingly.

[1] Note that the French version also includes minor drafting changes (see IDPC Rule clause 4760(1)(iii) and subclause 4805(1)(ii)(a)).

5.1 Trade matching exception reports

The Amendments include repealing the requirement for Dealers to file quarterly broker-to-broker trade matching exception reports. Since the Amendments will be effective on May 27, 2024, Dealers will not be required to file a quarterly trade matching exception report for the June 30, 2024 quarter-end. We expect the last quarterly report to be filed for the March 31, 2024 quarter-end.

5.2 Extended failed trade reporting and short position reporting

Given the move to T+1 settlement, Participants and Access Persons are reminded of the impact to:

- extended failed trade reporting
- short position reporting

Participants and Access Persons that file extended failed trade reports and short position reports should update any systems as necessary in order to ensure the timely and accurate submission of such reports.

5.2.1 Extended failed trade reporting

Pursuant to UMIR 7.10, Participants and Access Persons are required to notify CIRO of trades that fail for ten trading days past settlement date, which is currently T+2 and will change to T+1 after the move to T+1 settlement.

5.2.2 Short position reporting

Under UMIR 10.10, the due date for Participants and Access Persons to submit their short position reports will remain the same (i.e. two trading days following the calculation date). However, the move to T+1 settlement will affect timing of the calculation of short positions, as reported positions are based on settlement date.

6. Appendices

Appendix A - Black-line comparison of the Amendments to current rules

Appendix B - Clean copy of Amendments

Appendix C – Guidance on the regular settlement date to be used for certain foreign exchange hedge trades

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Guidance on the regular settlement date to be used for certain foreign exchange hedge trades

1. Executive summary

The Canadian Investment Regulatory Organization (**CIRO**) is publishing guidance to provide clarity on the regular settlement date to be used for certain foreign exchange hedge trades when determining the settlement date margin requirements for foreign currency trades with acceptable counterparties and regulated entities.

This guidance is effective May 27, 2024.

2. Rules related to regular settlement date

The regular settlement date for foreign exchange spot trades is not specified in the Investment Dealer and Partially Consolidated (**IDPC**) Rules[1] . Most foreign currency spot trades settle on either the first business day after trade date (**T+1**) or the second business day after trade date (**T+2**). Sections 4805 and 4808 of the IDPC Rules set out regular settlement dates for trades involving certain debt and equity securities. For most debt securities, the regular settlement date is T+1, whereas the regular settlement date for equity securities is the settlement date generally accepted according to industry practice for the market in which the transaction occurs.

Dealer Members[2] (**Investment Dealers**) are required to provide margin for trades with acceptable counterparties and regulated entities (as defined in the general notes and definitions to IDPC Form 1) on an equity deficiency basis, commencing on the regular settlement date of the trade in accordance with the notes and instructions to Schedules 4 and 5 of IDPC Form 1.

3. Foreign exchange spot trades

When an Investment Dealer executes an unhedged trade in a foreign currency denominated security, it assumes the following risks on trade date:

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[1] In this guidance, all rule references are to the IDPC Rules unless otherwise specified.
[2] As defined in subsection 1201(2) of the IDPC Rules.

- security specific market risk
- foreign exchange risk, since the trade must be settled in a currency other than Canadian dollars.

To address the foreign exchange risk, many Investment Dealers enter into a foreign exchange spot trade to lock-in the Canadian dollar amount of the transaction. While in most instances the trade date and settlement date for the foreign exchange spot trade will be the same as those of the security transaction being hedged, there may be instances where there is a mismatch between the settlement dates. For example, the foreign exchange hedge trade may settle on T+1 but the foreign currency denominated security transaction may settle on T+2.

4. Guidance on regular settlement date

For margin purposes, the regular settlement date to be used for the foreign exchange spot trades should be the same regular settlement date as the foreign currency denominated security, where the trade date for the foreign exchange spot trade is the same as the trade date of the foreign currency denominated security. For example, the regular settlement date of the foreign currency spot trade is:

- T+1, where the foreign currency spot trade hedges the foreign exchange risk associated with a trade in a foreign currency denominated security that has a regular settlement date of T+1 (e.g. foreign security within North America),
- T+2, where the foreign currency spot trade hedges the foreign exchange risk associated with a trade in a foreign currency denominated security that has a regular settlement date of T+2 (e.g. foreign security outside North America).

In all other instances, the regular settlement date is T+1 when determining margin for a foreign exchange spot trade.

Subsequent to this regular settlement date, where the counterparty to the foreign exchange spot trade is either an acceptable counterparty or a regulated entity, the trade must be margined on an equity deficiency[3] basis, in accordance with the notes and instructions to Schedules 4 and 5 of the IDPC Form 1.

5. Applicable Rules

IDPC Rules this Guidance Note relates to:

- section 4805,
- section 4808,
- Notes and instructions to Schedule 4 of IDPC Form 1, and
- Notes and instructions to Schedule 5 of IDPC Form 1.

6. Previous Guidance Note

This Guidance Note replaces GN-4800-21-001 Guidance Note - Regular settlement date to be used for certain foreign exchange hedge trades.

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[3] "Equity deficiency" is the difference between (a) the net market value of all settlement date security positions in the client's account(s) and (b) the net money balance on a settlement date basis in the same account(s).

7. Related documents

This Guidance Note was published under Bulletin 23-0150.