THE INVESTMENT FUNDS INSTITUTE OF CANADA | L'INSTITUT DES FONDS D'INVESTISSEMENT DU CANADA

IFIC Submission

Re: CSA Staff Notice 81-335
Investment Fund Settlement Cycles

March 16, 2023

THE INVESTMENT FUNDS INSTITUTE OF CANADA | L'INSTITUT DES FONDS D'INVESTISSEMENT DU CANADA

ANDREW MITCHELL
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[redacted] [redacted]

March 16, 2023

Delivered By Email: consultation-en-cours@lautorite.qc.ca, comments@osc.gov.on.ca

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission of New Brunswick
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Northwest Territories
Registrar of Securities, Yukon Territory
Superintendent of Securities, Nunavut

The Secretary
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Dear Sirs and Mesdames:

RE: CSA Staff Notice 81-335 *Investment Fund Settlement Cycles*

The Investment Funds Institute of Canada (**IFIC**) appreciates the opportunity to provide comments on CSA Staff Notice 81-335 *Investment Fund Settlement Cycles* (**CSN 81-335 or Staff Notice**), which sets out the Canadian Securities Administrators' (**CSA**) views about amending National Instrument 81-102 *Investment Funds* (**NI 81-102**) to require settlement one day after the date of the trade (**T+1**) for mutual funds. We note that the Staff Notice was published concurrently with the CSA's consultation on the proposed amendments to National Instrument 24-101 *Institutional Trade Matching and Settlements* (**NI 24-101**), which facilitates shortening the standard settlement cycle for equity and long-term debt market trades in Canada from two days after the date of the trade (**T+2**) to T+1.

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.

In this letter, IFIC is only providing comments in respect of the CSN 81-335, not NI 24-101. Nevertheless, as requested by CSA staff, IFIC is submitting this letter pursuant to the consultation on NI 24-101.

IFIC strongly supports the CSA's position in CSN 81-335 - proposing to not amend NI 81-102 at this time 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 approach will enable each mutual fund to have the flexibility to determine whether to implement a T+1 settlement cycle.

In support of a flexible approach that provides each mutual fund the flexibility to determine whether to implement a T+1 settlement cycle, IFIC suggests consequential technical amendments to section 9.4 [Delivery of Funds and Settlement] of NI 81-102, specifically subsection 9.4(4)(a).

IFIC recommends amending subsection 9.4(4)(a) of NI 81-102 to remove the specific references to "the "third business day after the pricing date" (i.e. T+3) in this subsection. Instead, IFIC recommends using generic wording which would accommodate a range of settlement cycles, and particularly for those mutual funds that voluntarily decide to change their settlement cycles to T+1. We propose the following amendments (illustrated by the redlining below):

> 9.4 (4) If payment of the issue price of the securities of a mutual fund to which a purchase order pertains is not made on or before the second business day after the pricing date or if the mutual fund has been paid the issue price by a cheque or method of payment that is subsequently not honoured,
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> (a) the mutual fund must redeem the securities to which the purchase order pertains as if it had received an order for the redemption of the securities ~~on the third business day after the pricing date~~ on the next business day after the settlement date of the purchase order or on the day on which the mutual fund first knows that the method of payment will not be honoured; and
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> (b) the amount of the redemption proceeds derived from the redemption must be applied to reduce the amount owing to the mutual fund on the purchase of the securities and any banking costs incurred by the mutual fund in connection with the dishonoured cheque.

IFIC's concern is that, in the case of mutual funds that do voluntarily decide to move to a T+1 settlement cycle, the current wording under subsection 9.4(4)(a) may require them to wait until T+3 before the fund may act on a failed payment of a purchase order and treat it like a redemption order in accordance with the requirements under subsection 9.4(4)(a) and (b). IFIC's proposed drafting is intended to accommodate a range of settlement cycles.

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We would be pleased to provide further information or answer any questions you may have. Please feel free to contact me by email [redacted] or by phone [redacted].

Yours sincerely,

THE INVESTMENT FUNDS INSTITUTE OF CANADA

[redacted]

By: Andrew Mitchell, President & CEO