

Toronto

July 26, 2017

Montréal

**SENT BY ELECTRONIC MAIL**

Calgary

Alberta Securities Commission  
Financial and Consumer Affairs Authority of Saskatchewan

Ottawa

Manitoba Securities Commission

Vancouver

Ontario Securities Commission

Autorité des marchés financiers

New York

Financial and Consumer Services Commission (New Brunswick)  
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island

Nova Scotia Securities Commission

Securities Commission of Newfoundland and Labrador

Superintendent of Securities, Northwest Territories

Superintendent of Securities, Yukon

Superintendent of Securities, Nunavut

c/o

The Secretary  
Ontario Securities Commission  
20 Queen Street West  
22nd Floor  
Toronto, Ontario M5H 3S8  
Fax: 416-593-2318  
[comments@osc.gov.on.ca](mailto:comments@osc.gov.on.ca)

M<sup>e</sup> Anne-Marie Beaudoin  
Corporate Secretary  
Autorité des marchés financiers  
800, square Victoria, 22<sup>e</sup> étage  
C.P. 246, tour de la Bourse  
Montréal (Québec) H4Z 1G3  
Fax : 514-864-6381  
[consultation-en-cours@lautorite.qc.ca](mailto:consultation-en-cours@lautorite.qc.ca)

Dear Sirs/Mesdames:

**Notice and Request for Comment –Adoption of a T+2 Settlement Cycle for Conventional Mutual Funds**

This letter is in response to the Notice and Request for Comment – *Adoption of a T+2 Settlement Cycle for Conventional Mutual Funds* (2017) 40 OSCB 3997 (the “**Proposed Amendments**”). The Proposed Amendments are aimed at shortening the standard settlement cycle for conventional mutual funds (“**Funds**”) from three days after the date of a trade (“**T+3**”) to two days after the date of a trade (“**T+2**”).

This letter reflects the comments of certain members of Osler, Hoskin & Harcourt LLP’s Investment Funds and Asset Management Practice Group and does not necessarily reflect the overall views of our firm or our clients.

While we are generally supportive of the Proposed Amendments and the broader migration in the equity and debt markets from a T+3 to a T+2 settlement cycle, adopting the Proposed Amendments in their current form could create compliance challenges for Funds that have exposure to markets remaining on a T+3 settlement cycle following the in force date of the Proposed Amendments (the “**In Force Date**”). While certain markets such as Canada, the U.S., and Europe will have migrated to a T+2 settlement cycle by the In Force Date, other markets will still be on a T+3 settlement cycle. For example, Japan, Brazil, the Philippines, Indonesia and Singapore are all expected to remain on a T+3 settlement cycle as of the In Force Date.

The settlement cycle mismatch will create significant liquidity management issues for Funds transacting in T+3 markets after the In Force Date. If a Fund were to receive a redemption request requiring it to liquidate securities in order to satisfy the redemption request, when that Fund has significant investments in Japan or other T+3 markets, it may not be possible to raise sufficient cash to pay out the redemption proceeds by T+2. For index Funds, this particular issue is exacerbated as such Funds must generally trade in proportion to the index being tracked (meaning they cannot, for example, generally raise cash by simply liquidating securities in other markets that settle within T+2). The result of this will be that Funds with significant T+3 market exposure will need to maintain higher cash balances than would otherwise be required in order to satisfy redemption requests and, in the case of Index funds, will result in increased tracking error to the Fund’s index. This is an undesirable result for both Fund investors and Fund managers.

To help alleviate these liquidity management issues, we would recommend that the Proposed Amendments be revised to include transition relief to permit a Fund to continue to complete redemption transactions on a T+3 basis if the Fund invests a substantial portion of its asset in securities traded only in markets that continue to remain on a T+3 settlement cycle.

We thank you for the opportunity to comment on the Proposed Amendments and would be pleased to discuss them with you further. If you have any questions or comments, please contact John Black (416.862.6586; [jblack@osler.com](mailto:jblack@osler.com)) or Shawn Cymbalisty (416.862.4244; [scymbalisty@osler.com](mailto:scymbalisty@osler.com)).

Yours very truly,

***“Osler, Hoskin & Harcourt LLP”***

Osler, Hoskin & Harcourt LLP