

# Information Bulletin

July 2017

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## T+2 Settlement is coming on September 5, 2017

### Background

Many countries already operate under a shortened settlement cycle, or are moving to it. For example, most European markets successfully transitioned to a T+2 settlement cycle in 2014. Australia and New Zealand moved to T+2 for their equity markets in March 2016.

The North American securities markets will shorten the maximum settlement cycle from three business days after the trade date (T+3) to two business days after the trade date (T+2) for trades in securities such as equities, corporate and long-term government bonds, and conventional mutual funds<sup>1</sup>, including ETF's and most investment funds that are traded on a marketplace.

This move will happen on September 5, 2017.

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<sup>1</sup> A conventional mutual fund is a mutual fund in continuous distribution where investors can redeem their investment more than once per year for a proportionate interest of the fund's net assets. Many pool funds distributed on a private placement basis meet the definition of a conventional mutual fund and as a result will be moving to T+2. Investors should refer to the applicable fund offering document for detailed settlement requirements.

## What Clients Need to Know

Parties impacted by the move to T+2:

- Investment managers and other issuers of securities subject to T+2
- Custodians
- Broker/dealers
- Clients invested in securities subject to T+2

For a comprehensive list of investment vehicles affected by the change to T+2, visit the Canadian Capital Markets Association publication link below:

[CCMA T+2 Asset List Request for Comments \(April 2016\)](#)

The T+3 settlement cycle has been in place since 1995.

Investment managers and custodians will need to enhance/modify/replace systems and procedures in order to be ready for a shortened settlement cycle. If market participants are not prepared, the misalignment of settlement cycles may create funding shortfalls and overdraft charges, which could be borne by investors.

Go live on September 5, 2017:

- Trades executed on September 1, 2017 (end of T+3 cycle) will settle on September 7, 2017
- Trades executed on September 5, 2017 (start of T+2 cycle) will settle on September 7, 2017

## Key Issues

1. Pooled fund subscription and redemption notice periods

Investment managers and custodians will be changing the required notice period for subscriptions and redemptions for those investment products impacted by the move to T+2. Investors will need to update their internal procedures to reflect these changes. Investors are also encouraged to confirm settlement provisions in the applicable fund's prospectus or offering memorandum which will be updated if it is subject to T+2.

2. Investment manager readiness to settle on T+2

If an investment manager is not ready to settle on T+2, a trade could fail creating a funding shortfall and overdraft expenses could be borne by the investor.

Aon's Global Operational Due Diligence Team will be sending out a survey in July to all investment managers with Aon Buy-rated strategies asking their preparedness for T+2. The responses received will be evaluated as part of our Operational Due Diligence rating criteria.

3. Custodian readiness to settle on T+2

Custodians are part of the trade settlement process and will be revising their trade notification deadlines to allow for sufficient time to solve potential issues and avoid failed trades under a T+2 settlement cycle standard.

We have reached out to the major custodians, State Street, Northern Trust, CIBC Mellon, and RBC, and they confirmed that they are ready for T+2 settlement.

## Recommendation

We recommend that clients reach out to their relationship managers at both their custodian and investment manager(s) to confirm:

- readiness for T+2
- changes in subscription and redemption notice periods
- changes in other processing timelines

# Contact Information

Should you wish additional information on this topic, please contact your local Aon Hewitt Consultant, or send an email to [info@aonhewitt.com](mailto:info@aonhewitt.com).

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Aon plc/Aon Hewitt Limited  
Registered office  
The Aon Centre  
The Leadenhall Building  
122 Leadenhall Street  
London  
EC3V 4AN  
United Kingdom

Aon Hewitt Investment Consulting, Inc.  
200 E. Randolph Street  
Suite 1500  
Chicago, IL 60601  
USA

Aon Hewitt Inc./Aon Hewitt Investment  
Management Inc.  
225 King Street West  
Suite 1600  
Toronto, ON  
M5V 3M2  
Canada

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