CUSTODIAN SUBGROUP

Key Updates

- Bank of Canada Onboarding on track
- **Custodial Readiness for CCMS & Repo 2.0:** Technical readiness targeted for Feb/Mar 2027 with mandatory pre-readiness checks before Repo 2.0 participation
- **Locked Account Solutions:** Two options under evaluation—current Locked CUID model vs. proposed Locked Single Account model to reduce funding delays
- **Automatic Entitlements Release:** COMPLETED May 2026; enables US-style repo with automatic coupon management across all fixed income instruments
- **Tri-Party Market Cutoff Alignment:** Swift-enabled custodians onboard; local Canadian custodians need automation investment
- **NI 81-102 Exemption:** Tri-party repo & equities exemption under discussion; SIMA member education approach underway

Timeline

Initiative	Status	Target
White Paper v5 Review	IN PROGRESS	June 23, 2026
Locked Account Requirements	IN PROGRESS	Q3 2026
Technical Specifications	IN PROGRESS	Q3 2026
REPO 2.0 Custodial Readiness	IN PROGRESS	Feb/Mar 2027

Key Risks

- Timeline risk if requirements documentation delayed
- Technology gap among custodians

- Regulatory uncertainty on NI 81-102 exemption timing

SETTLEMENT WORKSTREAM OVERVIEW

Three Parallel Sub-Streams

Workstream Structure

Sub-Stream 1: Broker-Dealer Settlement & Partial Settlements

- Status: Investigation phase
- Focus: Partial settlement opportunities and barriers in Canadian market
- Next: Clearstream expert engagement, data analysis, scenario modeling

Sub-Stream 2: Settlement Optimization & Harmonization

- Status: Technical analysis phase
- Focus: Multiple netting cycles and RTGS integration via Lynx. Ideal have cycles every 15 mins. Today it is 1 netting cycle
- Next: Define procedures, analyze CDS trade flip timing adjustment (3:30 → 3:00 PM)

Sub-Stream 3: Tokenization (Dedicated Strategic Priority)

- Status: White paper development and roadmap planning
- Focus: Integration of tokenized assets, central bank coordination
- Next: Complete white paper, define CBDC vs. stablecoin roadmap

Key Initiatives

Multiple Netting Cycles:

- Current: One cycle per day
- Proposed: Multiple intraday cycles (15-minute processing windows)
- Benefit: Earlier liquidity access, reduced end-of-day gridlock

Central Bank Integration & RTGS:

- Vision: CDS settlement with central bank money via Lynx

- Hybrid Approach: ACV for short cycles + Lynx for RTGS connectivity
- Benefit: Earlier settlement activity, improved liquidity management

Partial Settlements:

- Current State: NOT mandated in Canada; require bilateral agreement
- International Practice: Euroclear auto partials, DTC scalability
- Opportunity: Back-office automation could make partials more feasible

Timeline

Initiative	Target	Status
Settlement Netting Analysis	Q3 2026	IN PROGRESS
Settlement White Paper	July 2026	IN PROGRESS
CDS Trade Flip Feasibility	Q3 2026	IN PROGRESS
RTGS Integration Planning	H2 2026	PLANNING

Key Risks

- Infrastructure complexity in parallel systems integration
- Regulatory uncertainty on RTGS/CBDC timeline
- Market coordination challenges across multiple networks

TOKENIZATION SUBSTREAM – STRATEGIC IMPORTANCE

Why Tokenization Matters Now

- **Market Evolution:** Global markets already exploring; Canada must participate, not follow

- **Collateral Mobility:** Enables near-instantaneous cross-border transfers; reduces buffer needs
- **Intraday Liquidity:** Frequent settlement cycles reduce costly buffer requirements for banks
- **Market Competitiveness:** Positions Canada as innovation leader; attracts global capital
- **Client Demand:** Pension funds and asset managers exploring digital asset strategies

Hybrid Settlement Ecosystem (TradFi + DeFi)

- Traditional settlement rails (CDS, CCMS) continue operating
- Digital asset networks emerging in parallel
- **Requirement:** Both worlds must be seamlessly connected
- **Status:** Custodians and broker-dealers need unified operational models

Use Cases & Market Impact

Use Case	Current State	Tokenization Benefit
Cross-Border Collateral	Slow & expensive	Near-instantaneous; reduced buffers
Intraday Liquidity	Large daily buffers required	Real-time settlement; lower costs
Fund Tokenization	Traditional approach	Simpler regulatory path
Collateral Management	Pre-positioned assets	Dynamic, efficient movement

Network Interoperability & Governance

- Multiple digital networks will coexist (like historical tech standards)
- **Critical:** Networks must interoperate for settlement efficiency
- **Need:** Platform operator governance for access, registration, compliance
- **Action:** Adopt Canton or equivalent interoperability standard

Next Steps (Q3 2026)

1. **Complete Tokenization White Paper:** Comprehensive roadmap covering use cases, infrastructure, regulation
2. **Bank of Canada Coordination:** Ongoing alignment on digital money evolution and RTGS pathway
3. **Regulatory Engagement:** SIMA, securities regulators, CFIF coordination on digital asset framework
4. **Interoperability Standards:** Canadian participation in Canton and global standard-setting bodies

Key Risks

- Infrastructure complexity (parallel systems integration)
- Regulatory uncertainty (CBDC timeline, digital asset framework)
- Market fragmentation (without interoperability standards)
- Uncontrolled stablecoin proliferation (without clear regulatory framework)
